# COMMON MANUAL

*Unified Student Loan Policy*

*November 2003*

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# Summary of Changes Approved August through November 2003

This summary lists changes made since the July 2003 edition of the *Common Manual* was printed.
Change bars denote the latest policy changes, which were approved November 20, 2003.
Changes made before the July 2003 edition was printed are shown in appendix H of the manual.

| ***Common Manual* Section** | **Description of Change** | **Effective Date/Triggering Event** | **#** |
|---|---|---|---|
| **Chapter 2: About the FFELP** | | | |
| 2.2 The Life of a FFELP Loan<br>Figure 2-1 The Life of a Stafford Loan | Clarifies that the life of a FFELP loan ends when the loan is paid in full—or when the outstanding loan amount is fully discharged or forgiven. Includes that a loan that is forgiven is generally eligible for reimbursement from the guarantor, and that certain forgiveness programs do not involve the guarantor, but rather involve direct reimbursement from the Department to the lender. | Retroactive to the implementation date of the *Common Manual*. | 692/105 |
| Figure 2-2 The Life of a PLUS Loan | Includes information regarding the PLUS MPN and acknowledges that a PLUS borrower enters repayment status when a loan is fully disbursed. Also more accurately reflects flexible processing scenarios. | The PLUS Application and Master Promissory Note (PLUS MPN) may be used for PLUS loans certified by the school for loan periods beginning on or after July 1, 2003. The PLUS MPN must be used for loan periods beginning on or after July 1, 2004, or for any loan certified on or after July 1, 2004, regardless of the loan period. | 693/105 |
| 2.2.C Repayment | Clarifies that the life of a FFELP loan ends when the loan is paid in full—or when the outstanding loan amount is fully discharged or forgiven. Includes that a loan that is forgiven is generally eligible for reimbursement from the guarantor, and that certain forgiveness programs do not involve the guarantor, but rather involve direct reimbursement from the Department to the lender. | Retroactive to the implementation date of the *Common Manual*. | 692/105 |
| **Chapter 3: Lender Participation** | | | |
| 3.5.D Reporting Loan Status Changes | Removes contradictory guidance in 3.5.D and clarifies that the lender should notify the guarantor only if the student's enrollment status or dates of attendance actually change. Specific guidance for which enrollment status changes must be reported by the lender is covered in subsection 9.1.B. | Enrollment status changes reported by a lender on or after January 1, 2004, unless implemented earlier by the guarantor. | 703/106 |
| 3.6.B Financial Responsibility | Adds that currently issued and outstanding debt obligations that are without credit enhancements must also be without insurance and guarantee. It also changes "credit rating level" to "rating level of credit quality" and states that the rating level of credit quality must be given by a nationally recognized statistical rating organization. | Retroactive to the implementation date of the *Common Manual.* | 694/105 |

| *Common Manual* Section | Description of Change | Effective Date/Triggering Event | # |
|---|---|---|---|
| **Chapter 4: School Participation** | | | |
| 4.4 Reporting Social Security Number Changes | Eliminates the requirement that changes to student identifiers or changes to the student's permanent address information must be reported to the National Student Loan Data System (NSLDS). Also clarifies that these changes must be reported to the guarantor. Eliminates text indicating that guarantors will forward this information to lenders and servicers. In addition, clarifies that schools must report to the guarantor any change related to either the student's or parent borrower's SSN. | March 8, 1999 for address changes and April 1, 2002 for changes to student identifier information. | 699/106 |
| 4.6 Withdrawal Dates | Adds guidance on determining a student's withdrawal date if the student fails to earn a passing grade in at least one class and the school is unable to confirm the student's attendance through the end of the payment period or period of enrollment, as applicable. | Unofficial withdrawal determinations made by the school on or after October 7, 2000, unless implemented earlier by the school on or after November 1, 1999. | 695/105 |
| 4.8.A National Student Loan Data System (NSLDS) Enrollment Reporting | Eliminates the requirement that changes to student identifiers or changes to the student's permanent address information must be reported to the National Student Loan Data System (NSLDS). Also clarifies that these changes must be reported to the guarantor. Eliminates text indicating that guarantors will forward this information to lenders and servicers. In addition, clarifies that schools must report to the guarantor any change related to either the student's or parent borrower's SSN. | March 8, 1999 for address changes and April 1, 2002 for changes to student identifier information. | 699/106 |
| **Chapter 5: Borrower Eligibility** | | | |
| 5.2.B Social Security Number Data Match | Moves information regarding delivery of loan funds to students with unverified SSNs from subsection 5.2.B, to subsection 8.7.F, Delivery to Borrowers in Special Circumstances, because the information describes another circumstance in which a school may be restricted from delivering funds to a student. | Retroactive to the implementation of the *Common Manual*. | 724/108 |
| 5.2.D Prior Overpayment | Incorporates the return of Title IV funds provisions that allow a borrower who received a prior overpayment of Title IV funds to make satisfactory repayment arrangements directly with the Department. | Return of Title IV funds regulations are effective for any student who withdrew on or after October 7, 2000, unless implemented earlier by the school on or after November 1, 1999. | 705/107 |
| 5.3 Prior Loan Written Off | Clarifies that a borrower who has had a FFELP loan partially or totally written off is required to reaffirm the writtenoff portion and provide confirmation of that reaffirmation to the school before he or she is eligible to receive a new FFELP Loan. | Retroactive to the implementation of the *Common Manual*. | 713/108 |
| **Chapter 6: School Certification** | | | |
| 6.1 Defining an Academic Year<br>Figure 6-2 Frequency of Stafford Annual Loan Limits | Expands the information provided regarding SAYs and BBAYs and to clarify existing federal guidance regarding transfer students and overlapping loan terms. | Retroactive to the implementation of the *Common Manual*. | 719/108 |

| *Common Manual* Section | Description of Change | Effective Date/Triggering Event | # |
|---|---|---|---|
| 6.8 Determining the Student's Dependency Status | Clarifies that a student's dependency status is determined from information provided on the FAFSA and updates the criteria for determining the student's dependency status to align with the FAFSA. Also clarifies that a student's dependency status will affect the expected family contribution (EFC) and the types and amounts of aid that the student may be eligible to receive. In addition, an FAA's determination of dependency based on special circumstances has been deleted and a new subheading titled "Dependency Overrides" is addressed in proposal 716. | Retroactive to the implementation of the *Common Manual*. | 720/108 |
| 6.8 Determining the Student's Dependency Status | Includes examples of unusual circumstances that could be used by a FAA in exercising professional judgment to change a student's dependency status. Revised policy also includes examples of conditions that do not qualify a student for a change in dependency status. | Retroactive to the implementation date of the *Common Manual*. | 716/108 |
| **Chapter 7: Loan Origination** | | | |
| 7.1.B Creditworthiness<br>7.1.C Effect of Bankruptcy on Creditworthiness | Aligns the policy with the federal requirements applicable to determining a PLUS loan applicant's creditworthiness, and acknowledges that, in addition to other requirements, the standard of adverse credit applies if an applicant has had any debt, not just loans, discharged in bankruptcy during the 5-year period before the date of the credit report. | Retroactive to the implementation date of the *Common Manual*. | 709/108 |
| 7.7.J Disbursement to Transfer Students | Removes language stating that a lender and the former school must treat a student's transfer between schools as a withdrawal for the purposes of disbursing and delivering proceeds. | Retroactive to the implementation of the *Common Manual*. | 721/108 |
| 7.7.J Disbursement to Transfer Students | Expands the information provided regarding SAYs and BBAYs and to clarify existing federal guidance regarding transfer students and overlapping loan terms. | Retroactive to the implementation of the *Common Manual*. | 719/108 |
| **Chapter 8: Loan Delivery** | | | |
| 8.7.E Late Delivery | Clarifies that the total amount of a late disbursement and all prior disbursements may not exceed the student's loan eligibility as determined by the financial aid administrator (FAA). Also states that the school must provide the lender with a notice certifying the amount of loan funds the student is eligible to receive for that loan period or payment period. | Retroactive to the implementation of the *Common Manual*. | 722/108 |
| 8.7.F Delivery to Borrowers in Special Circumstances | Moves information regarding delivery of loan funds to students with unverified SSNs from subsection 5.2.B, to subsection 8.7.F, Delivery to Borrowers in Special Circumstances, because the information describes another circumstance in which a school may be restricted from delivering funds to a student. | Retroactive to the implementation of the *Common Manual*. | 724/108 |
| 8.7.G Delivery to Transfer Students | Removes language stating that a lender and the former school must treat a student's transfer between schools as a withdrawal for the purposes of disbursing and delivering proceeds. | Retroactive to the implementation of the *Common Manual*. | 721/108 |

| *Common Manual* Section | Description of Change | Effective Date/Triggering Event | # |
|---|---|---|---|
| **Chapter 9: Loan Servicing** | | | |
| 9.1.B Lender Reporting of Enrollment Changes | Removes contradictory guidance in 3.5.D and clarifies that the lender should notify the guarantor only if the student's enrollment status or dates of attendance actually change. Specific guidance for which enrollment status changes must be reported by the lender is covered in subsection 9.1.B. | Enrollment status changes reported by a lender on or after January 1, 2004, unless implemented earlier by the guarantor. | 703/106 |
| **Chapter 10: Deferment and Forbearance** | | | |
| 10.21 Mandatory Administrative Forbearance<br>10.21.C Repayment Accommodation | Moves existing language, which provides that any prior delinquency is not resolved by a mandatory forbearance, from subsection 10.21.C to section 10.21, a more appropriate location. Adds cross-references to section 10.21 to direct the reader to subsections 10.18.F and 10.19.F for more policy information about resolving a delinquency that precedes a mandatory administrative forbearance. | Retroactive to the implementation of the *Common Manual*. | 725/108 |
| 10.22.C National Service, Loan Forgiveness, or Department of Defense Repayment<br>Figure 10-2 Forbearance Eligibility Chart | Revised policy in 10.22.C and Figure 10-2 deletes the reference to ongoing procedural discussions between the industry and the Department relative to the child care provider loan forgiveness forbearance (the Forbearance Eligibility Chart), and summarizes the requirements for a forbearance request and for competing the Child Care Provider Loan Forgiveness Forbearance Form. | Child care provider loan forgiveness forbearance granted by a lender to initial applicants on or after July 27, 2001, and renewal applicants on or after August 29, 2002. | 700/106 |
| **Chapter 11: Due Diligence in Collecting Loans** | | | |
| Introduction | Deletes a note reference to loans with a monthly repayment obligation in subsection 11.4.B and places similar language in the introductory text for chapter 11. Also adds a cross-reference to section 1.6. | Retroactive to the implementation of the *Common Manual*. | 712/107 |
| 11.4.A Due Diligence Requirements for Loans with Monthly Repayment Obligations<br>11.4.B Due Diligence Requirements for Loans with Repayment Obligations Less Frequent Than Monthly | Aligns text in subsections 11.4.A and 11.4.B with text in subsection 12.6.A and adds explicit language in chapter 11 regarding applicable default claim filing time frames. | Loans for which the first day of delinquency on the oldest outstanding due date is on or after July 1, 2000, unless implemented earlier by the guarantor. | 710/107 |
| 11.4.B Due Diligence Requirements for Loans with Repayment Obligations Less Frequent Than Monthly | Deletes a note reference to loans with a monthly repayment obligation in subsection 11.4.B and places similar language in the introductory text for chapter 11. Also adds a cross-reference to section 1.6. | Retroactive to the implementation of the *Common Manual*. | 712/107 |
| 11.5.A Default Aversion Assistance Request (DAAR)<br>11.5.B Default Aversion Assistance Request Form | States a lender must request default aversion assistance through the Default Aversion Assistance Request Form or by an equivalent electronic process, such as the Common Account Maintenance (CAM) reporting process. | Retroactive to the January 5, 2001, implementation of the Default Aversion Assistance Request Form, unless implemented earlier by the guarantor. | 714/108 |
| **Chapter 12: Claim Filing, Discharge, and Forgiveness** | | | |
| 12.1.D Claim File Documentation | Incorporates guidance in Dear Colleague Letter GEN-02-12, which requires that a lender send only the Loan Discharge Application: Total and Permanent Disability to borrowers on or after March 31, 2003. | Total and permanent disability discharge applications provided to borrowers by the lender on or after March 31, 2003. | 706/107 |

| *Common Manual* Section | Description of Change | Effective Date/Triggering Event | # |
|---|---|---|---|
| 12.8.B Closed School | Conforms the format of the text in subsection 12.8.B with the format of other subsections in section 12.8 by creating a separate subheading for language regarding suspending and resuming collection activities during the closed school loan discharge process. This change also corrects administrative forbearance information in subsection 12.8.B. implementation of the *Common Manual*. | Retroactive to the implementation of the *Common Manual.* | 632/99 |
| 12.8.C Death | States that the portion of a Consolidation loan attributable to a PLUS loan obtained for a dependent student is eligible for discharge upon the death of that student. In addition, revised policy states that upon the death of one of the borrowers of a joint Consolidation loan made to a married couple, the underlying portion of the Consolidation loan attributable to that borrower is eligible for discharge. | Death claims filed by the lender on or after July 1, 2003, unless implemented earlier by the lender. Lenders may implement these provisions no earlier than November 1, 2002. | 701/108 |
| 12.8.D False Certification | Eliminates the dual-term usage of "collection charges" and "collection costs" in the text of the manual. | Retroactive to the implementation of the *Common Manual*. | 715/108 |
| 12.8.E Total and Permanent Disability | Incorporates guidance in Dear Colleague Letter GEN-02-12, which requires that a lender send only the Loan Discharge Application: Total and Permanent Disability to borrowers on or after March 31, 2003. | Total and permanent disability discharge applications provided to borrowers by the lender on or after March 31, 2003. | 706/107 |
| 12.8.E Total and Permanent Disability | Clarifies that the lender is not required to notify the sender that there is no further obligation to make payments on the loan. | Borrower payments received on or after April 1, 2003, after a total and permanent disability claim payment has been received by the lender, unless implemented earlier by the guarantor. | 707/107 |
| 12.9.A Loan Forgiveness Demonstration Program for Child Care Providers | Clarifies that the demonstration program is contingent upon annual appropriations and adds to the list of eligibility requirements as provided in the Federal Register dated August 29, 2002. | August 29, 2002. | 717/108 |
| 12.9.B Teacher Loan Forgiveness Program | States that the lender should not consider the time that a borrower is on active duty as a result of a military mobilization as an interruption in service required under the Teacher Loan Forgiveness Program. | Teacher Loan Forgiveness Program applications submitted by the lender to the guarantor on or after May 14, 2003. | 708/107 |
| 12.9.B Teacher Loan Forgiveness Program | Adds information regarding the borrower's requirement to complete a Teacher Loan Forgiveness Application to request forgiveness, and to provide information regarding the lender's timely filing requirement and penalty provisions. | Teacher Loan Forgiveness Applications received by the lender on or after July 1, 2001, from a "new borrower" on or after October 1, 1998, unless implemented earlier by the guarantor. | 718/108 |

| *Common Manual* Section | Description of Change | Effective Date/Triggering Event | # |
|---|---|---|---|
| **Chapter 13: Violations, Penalties, and Cures** | | | |
| 13.3.B Non-Default Claims | Clarifies that any due diligence activities normally required before determination of death or total and permanent disability are reviewed and penalties are assessed according to subsection 13.3.A, Default Claims. If there are violations sufficient to result in the loss of the loan's guarantee and the guarantee is not reinstated before the date the lender determines the borrower's (or, in the case of a PLUS loan, the dependent student's) death or total and permanent disability, the lender must discharge the loan. The balance will not be reimbursed by the guarantor. | Retroactive to the implementation of the *Common Manual*. | 723/108 |
| 13.3.B Non-Default Claims | Clarifies that due diligence is monitored from the date the lender receives notification that a borrower is ineligible, and adds cross references to required due diligence activities and timely filing violations. | Retroactive to the implementation of the *Common Manual.* | 711/107 |
| **Chapter 14: Federal Consolidation Loans** | | | |
| 14.5.B Maximum Repayment Period | Acknowledges that a lender considers alternative loans obtained both for the borrower's as well as for a dependent student's postsecondary education in determining the length of the repayment period for a Federal Consolidation loan. | Retroactive to the implementation of the *Common Manual.* | 696/105 |
| **Appendix G: Glossary** | | | |
| Borrower-Based Academic Year | Expands the information provided regarding SAYs and BBAYs and to clarify existing federal guidance regarding transfer students and overlapping loan terms. | Retroactive to the implementation of the *Common Manual*. | 719/108 |
| Claim | Creates a more general, process-neutral definition of the term "claim." | Retroactive to the implementation of the *Common Manual.* | 697/105 |
| Collection Costs | Eliminates the dual-term usage of "collection charges" and "collection costs" in the text of the manual. | Retroactive to the implementation of the *Common Manual*. | 715/108 |
| Eligible Lender<br>Lender | The expanded glossary definition of "Lender" provides clarity and consistency in the use of the term by FFELP participants. | Retroactive to the implementation of the *Common Manual*, with the exception of a consumer finance company subsidiary of a national bank which is retroactive to October 7, 1998. | 702/106 |
| Mandatory Administrative Forbearance<br>Mandatory Forbearance | Deletes the examples of situations when a lender must grant Mandatory Administrative Forbearance or Mandatory Forbearance. Instead, the reader is directed to the manual's text for details. | Retroactive to the implementation of the *Common Manual.* | 704/106 |
| Reaffirmation | Adds a definition of "reaffirmation" to the glossary. | Retroactive to the implementation of the *Common Manual.* | 698/105 |
| Scheduled Academic Year | Expands the information provided regarding SAYs and BBAYs and to clarify existing federal guidance regarding transfer students and overlapping loan terms. | Retroactive to the implementation of the *Common Manual*. | 719/108 |

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

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## 1.1 Introduction

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

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

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

## 1.2 Acknowledgments

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

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

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

## 1.3 About the Manual

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

### Chapters

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

### Appendices

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

### Sections and Subsections

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

For example:

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

### Citations

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

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

### Guarantor Contact Information

Section 1.6 of this chapter lists detailed contact information for guarantors using the *Common Manual*. Included are addresses, telephone and fax numbers for various departments of each guarantor, and, in some cases, Internet addresses.

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

### Updates

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

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

As a supplement to the manual, guarantors periodically provide bulletins or newsletters to participants, explaining changes to the manual. This bulletin language may also be found on the NCHELP web site and on many guarantor web sites.

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

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

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

Individuals or organizations not directly affiliated with the higher education or student loan industries must obtain the written permission of the Governing Board prior to using, duplicating, or reprinting any of the information contained in the *Common Manual*. These individuals or groups must provide the Governing Board with a written statement of purpose for using or reprinting information from the *Common Manual*. An individual or group should contact any guarantor and request to speak with the guarantor's *Common Manual* Governing Board representative for information regarding the procedure for obtaining such permission. (See section 1.6 for guarantor contact information.)

## 1.5 Disclaimer

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

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

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

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

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

# 1.6
# FFELP Guarantors and Contact Information

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

## FFELP Guarantors

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

American Student Assistance (ASA)

California Student Aid Commission (CSAC)/EdFund

Colorado Student Loan Program (CSLP)

Connecticut Student Loan Foundation (CSLF)

Education Assistance Corporation (EAC) (South Dakota)

Educational Credit Management Corporation (ECMC)

Finance Authority of Maine (FAME)

Florida Department of Education, Office of Student Financial Assistance

Georgia Higher Education Assistance Corporation

Great Lakes Higher Education Guaranty Corporation

Illinois Student Assistance Commission (ISAC)

Iowa College Student Aid Commission (ICSAC)

Kentucky Higher Education Assistance Authority (KHEAA)

Louisiana Student Financial Assistance Commission (LASFAC)

Michigan Higher Education Assistance Authority

Missouri Student Loan Program (MSLP)

Montana Guaranteed Student Loan Program (MGSLP)

National Student Loan Program (NSLP)

New Hampshire Higher Education Assistance Foundation (NHHEAF)

New Jersey Higher Education Student Assistance Authority

New Mexico Student Loan Guarantee Corporation (NMSLGC)

New York State Higher Education Services Corporation (HESC)

North Carolina State Education Assistance Authority

Northwest Education Loan Association (NELA)

Oklahoma State Regents for Higher Education

Oregon Student Assistance Commission

Rhode Island Higher Education Assistance Authority (RIHEAA)

South Carolina Student Loan Corporation

Student Loan Guarantee Foundation of Arkansas (SLGFA)

Student Loans of North Dakota (SLND)

Tennessee Student Assistance Corporation

Texas Guaranteed (TG)

United Student Aid Funds, Inc.

Utah Higher Education Assistance Authority (UHEAA)

Vermont Student Assistance Corporation (VSAC)

## Guarantor Contact Information

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

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

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

| Questions Regarding | Contact/Division | Telephone Number |
|---|---|---|
| AES - Delaware | Education Services Group | 1-800-292-7935<br>1-302-577-5253<br>Fax: 302-577-6765 |
| AES - West Virginia | Education Services Group | 1-800-437-3692<br>1-304-345-7211<br>Fax: 304-345-7215 |
| Application Processing<br>(Corrections/Appeals) | Guaranty Services | Students:<br>1-800-692-7392<br>Lenders & Schools:<br>1-800-443-0646<br>Fax: 717-720-3644<br>email: loanhelp@aes.Success.org |
| Bankruptcy | Loan Assets Management | 1-800-892-7576<br>717-720-2400<br>Fax: 717-720-3908<br>email: claimsinfo@aesSuccess.org |
| Claims Processing Operations | Loan Assets Management | 1-800-892-7576<br>1-717-720-2400<br>Fax: 717-720-3908<br>email: claimsinfo@aesSuccess.org |
| DataLINK<br>(Electronic Data Exchange) | Education Services Group | 1-800-699-2908<br>Fax: 717-720-3904<br>email: datalink@aesSuccess.org |
| Default Collections | Loan Assets Management | 1-800-233-0751<br>1-717-720-3400<br>Fax: 717-720-3909<br>email: default@aesSuccess.org |
| Default Prevention | Loan Assets Management | 1-800-328-0355<br>1-717-720-3400<br>Fax: 717-720-3909<br>email: deftprev@aesSuccess.org |
| Financial Aid Training Program | Education Services Group | 1-800-699-2908<br>Fax: 717-720-3904 |
| Fraud/Investigations | Development & Regional Services | 1-717-720-2183<br>Fax: 717-720-3933 |
| Lender Manifest | Guaranty Services | 1-800-443-0646<br>Fax: 717-720-3915<br>email: nslds@aesSuccess.org |

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

| Questions Regarding | Contact/Division | Telephone Number |
|---|---|---|
| Loan Consolidation | Network Consolidation | 1-800-338-5000<br>Fax: 717-720-3910<br>email: network@aesSuccess.org |
| Need Analysis & Packaging | Education Services Group | 1-800-699-2908<br>Fax: 717-720-3904 |
| NSLDS | Guaranty Services | 1-800-443-0646<br>Fax: 717-720-3915<br>email: nslds@aesSuccess.org |
| OneLINK<br>(Automated Loan Processing Services) | Education Services Group | 1-800-699-2908<br>Fax: 717-720-3904<br>email: onelinkservices@aesSuccess.org |
| Ordering Program Materials | Guaranty Services | 1-800-443-0646<br>Fax: 717-720-3644<br>email: loanhelp@aesSuccess.org |
| Program Review/Institution Eligibility | Development & Regional Services | 1-717-720-2740<br>Fax: 717-720-3933 |
| Skiptracing for Delinquent or Defaulted Loans | Loan Assets Management | 1-866-288-0026<br>1-717-720-3400<br>Fax: 717-720-3909<br>email: locate@aesSuccess.org |
| Student Status Confirmation Report | Guaranty Services | 1-800-443-0646<br>Fax: 717-720-3915<br>email: nslds@aesSuccess.org |

## American Student Assistance

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

| Questions Regarding | Contact/Name Division | Phone |
|---|---|---|
| ASA Conference Information | Training Department | 800-999-9080 ext. 4255 |
| ASA Direct | Call Center | 800-999-8090 ext. 5001 |
| Application Processing | Call Center | 800-999-9080 ext. 5001 |
| Claims Processing | Claims Department | 800-999-9080 ext. 4657 |
| CommonLine Registration | School Management | 800-999-9080 ext. 4630 |
| Cumulative Borrower Reports | Call Center | 800-999-9080 ext. 5001 |
| Debit Roster | School Management | 800-999-9080 ext. 5009 |
| **Defaulted Loans** | | |
| Advice | Payment Advisory Services | 800-343-2120 |
| Appeals | Call Center | 800-999-9080 ext. 5001 |
| Aversion | Repayment Assistance | 800-343-8883 |
| *Bright Beginnings* | | *866-274-4481* |
| Bankruptcy | External Agency Relations | 800-343-2120 |
| Collections | Payment Solutions | 800-999-9080 ext. 5002 |
| Closed Schools | Borrower Advocacy Unit | 800-999-9080 ext. 4203 |
| Consolidation | External Agency Relations | 800-343-2120 |
| Invalid Default/Disputes | Borrower Advocacy Unit | 800-999-9080 ext. 4203 |
| Payment Arrangements and Solutions | Payment Advisory Services | 800-343-2120 |
| Rehabilitation | External Agency Relations | 800-343-2120 |
| Deferments/Forbearance | Repayment Assistance | 800-343-8883 |
| Disbursement Information | Call Center | 800-999-9080 ext. 5001 |
| DOR/IRS Tape Process | Electronic Services | 800-999-9080 ext. 4658/4269 |
| EFT Questions | Call Center | 800-999-9080 ext. 5001 |
| Entrance/Exit Counseling | School Management | 800-999-9080 ext. 4630 |
| *FASTFUND* Questions | Lender/Servicer Relations | 800-999-9080 ext. 4641 |
| Guarantee Status | Call Center | 800-999-9080 ext. 5001 |
| Guarantee Fee Billing | Lender/Servicer Relations | 800-999-9080 ext. 4641 |
| IRS Offset | Borrower Advocacy Unit | 800-999-9080 ext. 6039 |
| Late Disbursements | Call Center | 800-999-9080 ext. 5001 |
| Lender Manifest Tape Processing | Electronic Services | 800-999-9080 ext. 4658/4269 |
| Lender/School Reviews | Lender/ School Review Dept. | 800-999-9080 ext. 4573 or 800-999-9080 ext. 4575 |
| Legislative | Legislative | 800-999-9080 ext. 4214 |
| Loan Denials | Call Center | 800-999-9080 ext. 5015 |
| National Clearinghouse Processing | Electronic Services | 800-999-9080 ext. 4658 |
| NSLDS Resolution | Call Center | 800-999-9080 ext. 5001 |
| NSLDS Monthly Submittal (tape) | Electronic Services | 800-999-9080 ext. 4269/4658 |
| Ombudsman | | 800-999-9080 ext. 4512 |
| Partial Payments/Cancellations | Call Center | 800-999-9080 ext. 5001 |
| Policy Questions | Call Center | 800-999-9080 ext. 3027 |
| Product/Services Information | Business Development | 800-999-9080 ext. 4268 |
| Regulatory/Statutory Questions | Regulatory Advisor | 800-999-9080 ext. 3027 |
| Repayment Information | Repayment Assistance | 800-343-8883 |
| Student Status Verification | Call Center | 800-999-9080 ext. 5001 |

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## California Student Aid Commission (CSAC)/EdFund

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

**Overnight Mail:**
3300 Zinfandel Drive
Rancho Cordova, CA 95670

| Question Regarding | Contact | | Telephone Number |
|---|---|---|---|
| Application Processing (Lender/School Inquiries Only) | Origination & Guarantee Services Department | | (877) 233-3863 |
| | | Fax | (916) 526-7937 |
| Bankruptcy | ECMC - Bankruptcy Department | | (651) 221-0566 |
| Claims (All types) | Claim Adjudication Unit | | (916) 526-7363 |
| | | Fax | (916) 526-7384 |
| Claim Averts/Recalls | Claim Adjudication Unit | | (916) 526-7381 |
| | | Fax | (916) 526-7393 |
| Closed School (Borrowers) | Post Default Services | | (800) 367-1590 |
| | | Fax | (916) 526-7277 |
| Default Collections | Internal Collections Unit | | (800) 367-1589 |
| | | Fax | (916) 526-7517 |
| Default Prevention | Default Prevention Unit | | (800) 298-9491 |
| | | Fax | (916) 526-7392 |
| Disclosure Reprints | Origination & Guarantee Services Department | | (877) 233-3863 |
| | | Fax | (916) 526-7937 |
| EFT (Lender) | Lender Relations Unit | | (916) 526-7321 |
| | | Fax | (916) 526-7315 |
| EFT (School) | School Relations Unit | | (877) 222-2680 |
| | | Fax | (916) 526-8497 |
| False Certification (Borrowers) | Post Default Services Unit | | (800) 367-1590 |
| | | Fax | (916) 526-7277 |
| False Certification (Schools & Lenders only) | Post Default Services Unit | | (916) 526-8265 |
| | | Fax | (916) 526-7277 |
| FAPS | Information Line | | (916) 526-8260 |
| Forms and Publications | Shipping Center | | (877) 233-3863 |
| | | Fax | (916) 464-1292 |
| Fraud | Office of the Inspector General | | (800) 647-8733 |
| Grant Inquiries (Students) | Grant Programs Customer Service | | (916) 526-7590 |
| Grant Inquiries (Schools/Lenders) | Grant Programs Customer Service | | (888) 224-7268 |
| Information Security/Access | Information Security Unit | | (916) 526-8148 |
| | | Fax | (916) 526-8147 |
| IRS/FTB Offset | Post Default Services Unit | | (800) 367-1590 |
| Lender Electronic Testing | Loan Services Unit | | (916) 526-7321 |
| | | Fax | (916) 526-7315 |

## California Student Aid Commission (CSAC)/EdFund

| Question Regarding | Contact | | Telephone Number |
|---|---|---|---|
| Lender Manifest | Origination & Guarantee Services Unit | | (916) 526-8228 |
| | | | (877) 233-3863 |
| | | Fax | (916) 526-7937 |
| Loan Status Inquiries (Borrowers) | Origination & Guarantee Services Unit | | (916) 526-8424 |
| | | | (877) 233-3863 |
| | | Fax | (916) 526-7937 |
| Loan Status Inquiries (Schools and Lenders only) | Origination & Guarantee Services Unit | | (916) 526-8228 |
| | | | (877) 233-3863 |
| | | Fax | (916) 526-7937 |
| PCFAPS | Help Desk | | (916) 526-7200 |
| | | Fax | (916) 526-7225 |
| Policy/Procedures (Lenders) | Loan Services Unit | | (916) 526-7321 |
| | | Fax | (916) 526-7315 |
| Policy/Procedures (Schools) | School Relations Unit | | (866) 222-2680 |
| | | Fax | (916) 526-8497 |
| Preclaims Assistance (Borrower Inquiries) | Default Prevention Unit | | (800) 298-9490 |
| | | Fax | (916) 526-7392 |
| Preclaims Assistance (School and Lender Inquiries Only) | Default Prevention Unit | | (800) 298-9491 |
| | | Fax | (916) 526-7392 |
| Regional Offices | Sacramento | | (866) 722-3833 |
| | | Fax | (916) 526-8027 |
| | San Francisco | | (866) 443-5108 |
| | | Fax | (916) 526-8027 |
| | Los Angeles | | (866) 443-5146 |
| | | Fax | (916) 526-8027 |
| | San Diego | | (866) 677-5475 |
| | | Fax | (916) 526-8027 |
| | Arizona | | (877) 685-9036 |
| | | Fax | (480) 968-4273 |
| | Washington | | (877) 685-9035 |
| | | Fax | (206) 575-4495 |
| | Eastern Region | | (866) 353-4898 |
| | | Fax | (727) 822-2724 |
| Repurchases | Claim Adjudication Unit | | (916) 526-7382 |
| | | Fax | (916) 526-7384 |
| Reports/Report Processing (Schools and Lenders) | Origination & Guarantee Services Department | | (877) 233-3863 |
| | | Fax | (916) 526-7937 |
| Telecommunications | Help Desk | | (916) 526-7200 |
| | | Fax | (916) 526-7225 |
| Training (Schools and Lenders) | Loan Services Unit | | (916) 526-7321 |
| | | Fax | (916) 526-7315 |

# Colorado Student Loan Program (CSLP)

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

http://www.cslp.org

| Questions Regarding | Department | Telephone Numbers |
|---|---|---|
| Accounts Payable | Accounting | Ext.3368 |
| Accounts Receivable | Accounting | Ext.3269 |
| Application Problems | Operations | (303)305-3500 |
| Claims | Claims | Ext.3204 |
| Compliance Issues | CTI | Ext.3311 |
| Connect | Operations | Ext.3248,3301 |
| Consolidation Loan Information | Operations | Ext.3332 |
| Contracts for Lenders and Schools | Operations | Ext.3306,3312,3248 |
| Corrections on Applications | Operations | (303)305-3500 |
| Debt Management Information | Business Development | Ext.3265 |
| Default Collection | Collections | (303)305-3333 |
| Electronic Processing | Operations | Ext.3301,3248,3300 |
| Foreign School Processing | Operations | Ext.3300,3294 |
| Forms (How to Use) | CTI | Ext.3311 |
| Forms/Supplies (To order) | Office Services | Ext.3488 |
| Guarantee Fee Billing | Accounting | Ext.3269 |
| Information Services (IT) Help Desk | Information Services | Ext.3323 |
| Interest and Special Allowance | CTI | Ext.3311 |
| Legal Counsel for CSLP | Administration | Ext.3275 |
| Lender of Last Resort | Operations | Ext.3312 |
| Lender Manifest Issues | Operations | (303)305-3500 |
| Lender and School Hotline | Operations | (303)305-3500 |
| Litigation Issues | Litigation | Ext.3259 |
| Loan Servicing Issues | Loan Servicing | (303)305-3050/800-289-7378 |
| Loan Status Information | Operations | (303)305-3500 |
| Loan Transfer Reporting | Operations | (303)305-3500 |
| Marketing Assistance | Business Development | Ext.3265 |
| NSLDS | Operations | Ext.3446 |
| Ombudsman | Director's Office | (303)305-3274 |
| Preclaim/Default Prevention | Repayment Services | (303)305-3355 |
| Program Reviews | CTI | Ext.3311 |
| Public Relations | Business Development | Ext.3264 |
| Regulations and Laws | CTI | Ext.3311 |
| Remote Access | Operations | Ext.3248,3301 |
| Research and Data Assistance | Business Development | Ext.3265 |
| Training for Lenders and Schools | CTI | Ext.3311 |

| RECORDED INFORMATION | |
|---|---|
| Directions to CSLP | Ext.3139 |
| Interest and Special Allowance Rates | Ext.3118 |
| Training Sessions for Schools & Lenders | Ext.3113 |

| EXTENSION BY | |
|---|---|
| Accounting | Ext.3366 |
| Administration | Ext.3258 |
| CTI | Ext.3311 |
| Claims | Ext.3204 |
| Default Collections | Ext.3333 |
| Director's Office | Ext.3274 |
| Loan Servicing | Ext.3050 |
| Litigation | Ext.3259 |
| Business Development | Ext.3265 |
| Records Center | Ext.3262 |

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## Connecticut Student Loan Foundation

## CSLF

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

| Question Regarding | Contact/Division | Extension |
|---|---|---|
| Academic Services | Academic Services | 328 |
| Application Processing | Guarantee Operations | 442 |
| Borrower Inquiries | Guarantee Operations | 442 |
| CALS Servicing Sales | Lender Servicing | 222 |
| Cancellations/Refunds | CALS Servicing | 342 |
| Claim Averts/Recalls | Guarantee Operations/Claims | 258 |
| Claims Issues | Guarantee Operations/Claims | 211 |
| Closed Schools | Guarantee Operations/Claims | 211 |
| Cohort Default Issues | Guarantee Operations | 494 |
| Compliance Issues | Audit & Compliance Evaluations | 233/221 |
| Default Services | Default Services | 595 |
| Deferment Eligibility/Processing | Guarantee Operations | 442 |
| EFT (School) | Academic Services | 328 |
| Electronic Products & Interfaces | Academic Services | 328 |
| Entrance/Exit Interview Information | Training | 347 |
| Forms & Publications | Mail Room | 376 |
| Guarantee Fee Billing | Guarantee Operations | 211 |
| Loan Adjustments | Guarantee Operations | 442 |
| Loan Status Inquiries | Guarantee Operations | 442 |
| NSLDS Operations | Guarantee Operations | 494 |
| NSLDS Technical Issues | Programming | 398 |
| Portfolio Conversions | CALS Servicing | 336 |
| Pre-Claims Information | Guarantee Operations/Claims | 211 |
| Regulations & Laws | Legal Department | 366/224 |
| Repayment Provisions | CALS Servicing | 442 |
| Secondary Market | Lender Servicing | 222 |
| SSCR/Enrollment Verification | Guarantee Operations | 494 |
| State & Treasury Offset | Default Portfolio Management | 291 |
| System Operations | Technical Support | 293 |
| Technical Assistance | Programming | 349 |
| Training | Training | 347 |

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## Education Assistance Corporation (EAC)

115 First Avenue S.W.
Aberdeen, SD 57401
Telephone Number: (800) 592-1802
(605) 225-6423
Fax Number: (800) 354-7070
(605) 225-5722

| Question Regarding | Contact/Division | Telephone Number |
|---|---|---|
| Application Corrections | Guarantee & Customer Services | (800) 592-1802, press 1 |
| Application Processing | Guarantee & Customer Services | (800) 592-1802, press 1 |
| Bankruptcy | Claims | (800) 874-8982 |
| Cancellations | Guarantee & Customer Services | (800) 592-1802, press 1 |
| Claim Processing | Claims | (800) 874-8982 |
| Cohort Default Rate | Default Prevention | (800) 874-8982 |
| Cure Procedures | Claims | (800) 874-8982 |
| Default Prevention Information | Default Prevention | (800) 874-8982 |
| Deferment Eligibility | Claims | (800) 874-8982 |
| EASCI Lender Servicing | EASCI | (800) 458-4011 |
| Financial Aid Services | Financial Aid Services | (800) 874-9033 |
| Lender Manifest | Guarantee & Customer Services | (800) 592-1802, press 1 |
| Ordering Supplies | Mailroom | (800) 592-1802, ext. 4302 |
| Program Reviews | Program Review | (800) 592-1802, ext. 4308 |
| Repayment Provisions | Default Prevention | (800) 874-8982 |
| System Operations | Information Systems | (800) 592-1802, press 8 |
| Technical Assistance | Information Systems | (800) 592-1802, press 8 |
| Training | Business Development | (800) 592-1802, ext. 4391 |
| Verification of Enrollment | Guarantee & Customer Services | (800) 592-1802, press 1 |
| Web Page | | www.eac-easci.org |

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# Educational Credit Management Corporation (ECMC)

www.ecmc.org

VIRGINIA
7325 Beaufont Springs Drive, Suite 200
Richmond, VA 23225
Toll Free 1-888-775-3262
Local 804-267-7100
TDD 804-267-7104
Main Fax 804-267-7159

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

| Questions Regarding | Department/Contact | Phone Number | E-Mail Address |
|---|---|---|---|
| Application Processing | Loan Servicing | 888-775-3262 | |
| | Donna Quigley | 651-291-3314 | dquigley@ecmc.org |
| | Joann Via | 804-267-7106 | jvia@ecmc.org |
| AWG Hearings | Doug Hendrickson | 804-267-7102 | dhendrickson@ecmc.org |
| Bankruptcy Processing | Yolanda Jones | 651-291-3334 | yjones@ecmc.org |
| | Jan Jacobson | 651-221-2486 | jjacobson@ecmc.org |
| | Mary Sandness | 651-221-4080 | msandness@ecmc.org |
| CAM | Rebecca Borstad | 651-291-3333 | borstad@ecmc.org |
| | Kathy Sizemore | 651-221-4073 | ksizemore@ecmc.org |
| Claims | Jim Fryer | 651-291-3316 | jfryer@ecmc.org |
| | Debbie Anderson-Vines | 651-291-3352 | danderson-vines@ecmc.org |
| | Rich Lentsch | 651-291-3332 | rlentsch@ecmc.org |
| Client Services | Randy Craig | 804-267-7124 | rcraig@ecmc.org |
| Closed Schools | Cheryl Farmer | 804-267-7103 | cfarmer@ecmc.org |
| Collections | Carey Dubbs | 651-221-4072 | cdubbs@ecmc.org |
| | Mike Heffernan | 651-221-4090 | mheffernan@ecmc.org |
| Compliance | Mike Hawkes | 804-267-7101 | mhawkes@ecmc.org |
| Consolidation Loans | Rebecca Borstad | 651-291-3333 | borstad@ecmc.org |
| | Kathy Sizemore | 651-221-4073 | ksizemore@ecmc.org |
| Debt Counseling | Randy Craig | 804-267-7124 | rcraig@ecmc.org |
| Default Aversion Assistance Requests - Requests and Aversions | Nancy Brown | 804-267-7112 | nbrown@ecmc.org |
| | Cheryl Farmer | 804-267-7103 | cfarmer@ecmc.org |
| Default Prevention | Jay Worthington | 804-267-7108 | jworthington@ecmc.org |
| | Doug Hendrickson | 804-267-7102 | dhendrickson@ecmc.org |
| Document Control | Jeff Jones | 651-291-3310 | jjones@ecmc.org |
| ECMC Foundation | Jennifer Lea Wise | 505-428-2122 | jwise@ecmc.org |
| Electronic Data Exchange | Paul Perea | 651-767-3020 | pperea@ecmc.org |
| | Rick Tonn | 651-291-3318 | rtonn@ecmc.org |
| | Ann Altman | 651-221-4077 | altman@ecmc.org |

## Educational Credit Management Corporation (ECMC)

| Questions Regarding | Department/Contact | Phone Number | E-Mail Address |
|---|---|---|---|
| Lender Billing | Scott Tarasewicz | 651-291-3324 | starasewicz@ecmc.org |
| Meteor | Kathy Sizemore | 651-221-4072 | ksizemore@ecmc.org |
| Newsletter/Publications | Mike Hawkes | 804-267-7101 | mhawkes@ecmc.org |
| NSLDS Lender Manifest Processing | Rebecca Borstad<br>Kathy Sizemore | 651-291-3333<br>651-221-4073 | borstad@ecmc.org<br>ksizemore@ecmc.org |
| Ombudsman | Todd Leek | 651-221-2487 | tleek@ecmc.org |
| Privacy | Laurie Huusko | 651-767-3090 | lhuusko@ecmc.org |
| Product Development | Ann Altman | 651-221-4077 | altman@ecmc.org |
| Public Information | Dick Boyle | 651-291-3353 | boyle@ecmc.org |
| Regulatory Interpretation | Mike Hawkes | 804-267-7101 | mhawkes@ecmc.org |
| Supply Requests | Della Arnold | 804-267-7127 | darnold@ecmc.org |
| Training Coordinator | Mike Hawkes | 804-267-7101 | mhawkes@ecmc.org |

## Finance Authority of Maine (FAME)

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

OR
PO Box 6180
Indianapolis, IN 46206-6180
(800) 428-9250

| Question Regarding | Contact | Telephone Number |
|---|---|---|
| Account Update File for Lenders | Indianapolis, IN | (800) 348-4606 |
| Application Order | Augusta, ME | (800) 228-3734 |
| Claims | Indianapolis, IN | (800) 428-9250, ext. 2506 |
| CommonLine | Indianapolis, IN | (800) 348-4606 |
| Compliance Services | Augusta, ME | (800) 228-3734 |
| Consolidation | Augusta, ME | (800) 228-3734 |
| Customer Assistance | Indianapolis, IN | (800) 824-7044 |
| NSLDS | Indianapolis, IN | (800) 824-7044 |
| Post Claims Assistance | Indianapolis, IN | (800) 331-2314 |
| Pre-Claims Assistance | Indianapolis, IN | (800) 635-3743 |
| Regulatory/Policy Questions | Augusta, ME | (800) 228-3734 |
| SSCR | Indianapolis, IN | (800) 824-7044 |
| WhizKid | Indianapolis, IN | (800) 348-4606 |

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

1940 Monroe Street, Suite 70
Tallahassee, Florida 32303-4759

Post Office Box 7019
Tallahassee, Florida 32314-7019

Telephone: (850) 410-5200
FAX: (850) 942-8017

| For Questions Regarding | Contact | Telephone Number |
|---|---|---|
| Agreements - School /Lender | Onaleah McClellan | (850) 140-6852 |
| Application Processing/Rejects | Allie Gamble<br>Tangela Collins<br>Terri Hargrove | (850) 410-5243<br>(850) 410-5213<br>(850) 410-5151 Ext. 5291 |
| Bankruptcy | Jeff McGaughey | (850) 410-5151 Ext. 5825 |
| Claims | Kelly Harrison | (850) 410-6820 |
| Closed School/False Certification | Judith Royce | (850) 410-6847 |
| Cohort Default Rate | Patricia Ceci | (850) 410-5200 Ext. 5248 |
| Collections | Kelly Harrison | 1-800-262-6732 |
| Consolidation | Tom Mims<br>Brenda Christie<br>Gloria Gilliam | (850) 410-5811<br>(850) 410-5151 Ext. 5250<br>(850) 410-5151 Ext. 5281 |
| Customer Service | | 1-800-366-3475 |
| Default Aversion | Jeanie Carter | (850) 410-5200 Ext. 5227 |
| Disability | Annie Fedd | (850) 410-5151 Ext. 5826 |
| Foreign Schools | Allie Gamble | (850) 410-5243 |
| Fraud | Judith Royce | (850) 410-5219 |
| IRS Offset | Olga Roca | (850) 410-5151 Ext. 5363 |
| Lender and School Reviews | Judith Royce | (850) 410-6848 |
| NSLDS & Clearinghouse | Joe Chulak | (850) 410-5294 |
| Policy and Procedures | Reitha Scott | (850) 410-6846 |
| Record Maintenance/Fees | Marilyn Johnson | (850) 410-5237 |
| Rehabilitation | Annie Fedd | (850) 410-5151 Ext. 5826 |
| Repurchase | Connie Holloway | (850) 410-6827 |
| Systems | Ron Lauver | (850) 410-5240 |

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## Georgia Higher Education Assistance Corporation

2082 East Exchange Place, Suite 200
Tucker, Georgia 30084
Main Telephone Number: (800)776-6878
General FAX Number: 770-724-9131

| Questions Regarding | Contact/Division | Telephone Number |
|---|---|---|
| Loan Application & Disbursement Status | Customer Service | 770-724-9000 or 1-800-776-6878 |
| SSP Administration | Loan Originations | 770-724-9244 |
| Application Processing | Loan Originations | 770-724-9231 |
| Private Line Service | School Liaison | 1-800-414-3080 |
| Private Line Service | Lender Liaison | 1-800-443-3025 |
| Disbursement Services | Loan Originations | 770-724-9244 |
| Electronic Funds Transfer | Loan Originations | 770-724-9244 |
| Guarantor Information | Program Administration | 770-724-9130 |
| NSLDS Lender Manifest | Program Administration | 770-724-9167 |
| NSLDS SSCR | Program Administration | 770-724-9163 |
| Compliance Inquiry | Compliance &Training | 770-724-9139 |
| Lender/School Training | Compliance &Training | 770-724-9138 |
| Cohort Default Rate Appeals | Compliance &Training | 770-724-9137 |
| Closed Schools | Compliance &Training | 770-724-9137 |
| Default Prevention | Pre-Claims Assistance | 770-724-9157 |
| Claims Information | Claims &Collections | 770-724-9141 |
| Default Collections | Claims &Collections | 770-724-9151 |
| SCHOLARNet | Electronic Processing | 770-724-9316 |
| Financial Aid Consultants | Scholarship Division | 770-724-9070 |
| HOPE Scholarship | Scholarships &Grants | 1-800-546-HOPE |

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# Great Lakes Higher Education Guaranty Corporation

www.mygreatlakes.com

| Minnesota | Ohio | Wisconsin |
|---|---|---|
| 444 Cedar Street, Ste. 600<br>St. Paul, MN 55101 | 4689 Hilton Corporate Drive<br>Columbus, OH 43232 | 2401 International Lane<br>Madison, WI 53704 |

| Questions Regarding | Contact / Division | | Telephone No. | Fax |
|---|---|---|---|---|
| Application Processing | Loan Processing | MI & OH | (800) 377-9095 | (614) 755-7414 |
| | | MN | (800) 366-0032 | (651) 290-8799 |
| | | WI & all other areas | (800) 236-6600 | (608) 246-1618 |
| Bankruptcy | Compliance & Claims | | (608) 246-1603 | (608) 246-1646 |
| Claims Processing | Compliance & Claims | | (608) 246-1603 | (608) 246-1646 |
| Consolidation | Loan Processing | | (800) 236-6600<br>consolidation@glhec.org | (608) 246-1540 |
| Customer Service | Lenders & Schools | MI & OH | (800) 950-0134 | (614) 755-7414 |
| | | MN | (800) 676-8732 | (651) 290-8799 |
| | | WI & all other areas | (800) 236-5900<br>service@glhec.org | (608) 246-1618 |
| Default | Default Collections | | (800) 236-3100 | |
| Default Aversion | Lenders & Schools | | (608) 246-1490 | (608) 240-1301 |
| | Borrowers | | (800) 236-2700<br>defaultaversion@glhec.org | (888) 714-2725 |
| Deferment / Forbearance | Lenders & Schools | | (800) 236-5900 | |
| Forms / Supply Requests | Customer Service | MI & OH | (800) 950-0134 | (614) 755-7414 |
| | | MN | (800) 676-8732 | (651) 290-8799 |
| | | WI & all other areas | (800) 236-5900 | (608) 246-1618 |
| Great Lakes Higher Education | Customer Service - Borrowers | | (800) 236-4300 | (608) 246-1608 |
| Servicing Corporation | Lender Reports & Reporting | | (608) 246-1640 | (608) 246-1619 |
| | Portfolio Conversions | | (608) 246-1675 | (608) 246-1694 |
| Guaranty Fee Billing | Loan Program Accounting | | (608) 246-1659 | (608) 246-1434 |
| Products / Services | Client Services | MI | (866) 866-0188 | (866) 866-0189 |
| | | MN | (800) 236-0051 | (800) 236-0052 |
| | | OH | (800) 950-0134 | (614) 755-7414 |
| | | PR | (800) 967-6020 | (787) 281-0836 |
| | | WI & all other areas | (800) 236-5900 | (608) 246-1618 |
| Regulation Assistance | Customer Service | | (800) 236-5900<br>service@glhec.org | (608) 246-1618 |
| Product Support | Technical Support | | (800) 824-8725 | (651) 290-7960 |
| Student Status Confirmation | Loan Status Processing | | (608) 246-1650 | (608) 246-1694 |
| Western Region | Schools/Lenders | | (800) 472-3398 | |
| | Borrowers | | (800) 247-0462 | |
| | Fax | | | (651) 290-8799 |

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## Illinois Student Assistance Commission (ISAC)

1755 Lake Cook Road
Deerfield, IL 60015
Telephone Number: (800) 899-ISAC (4722)
Fax Number: (847) 831-8549 - Client Support Services
Fax Number: (847) 831-8515 - Business and Financial Services
Web Address: **www.collegezone.com**

| Question Regarding | Contact/Division | Telephone Number |
|---|---|---|
| Appeals | Client Support Services (CSS) | 800-899-4722 |
| Application Processing | CSS | 800-899-4722 |
| Deferments and Forbearance | CSS | 800-899-4722 |
| Disbursement Information | CSS | 800-899-4722 |
| Electronic Loan Processing | CSS | 800-899-4722 |
| Guarantee Status | CSS | 800-899-4722 |
| Late Disbursement | CSS | 800-899-4722 |
| Lender/School Reviews | Compliance | 800-899-4722 |
| Lender/School Training | CSS | 800-899-4722 |
| Loan Consolidation | CSS | 800-899-4722 |
| Loan Denials | CSS | 800-899-4722 |
| Defaulted Loans | Business and Financial Services<br>Default Prevention Services<br>Recovery Services | <br>800-477-4411<br>800-934-3572 |
| Policy Questions | CSS | 800-899-4722 |
| Regulatory Interpretation | CSS | 800-899-4722 |
| Repayment Information | CSS | 800-899-4722 |
| Student Status Verification (SSCR) | CSS | 800-899-4722 |
| Secondary Market - Illinois Designated Account Purchase Program (IDAPP) | | 800-366-5755 (borrower repayment info)<br>800-961-IDAP (4327) (loan origination) |

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## Iowa College Student Aid Commission (ICSAC)

200 10th Street, 4th Floor
Des Moines, IA 50309-3609
Telephone Number: (515) 242-3344
(800) 383-4222
Fax Number: (515) 242-3389

| Question Regarding | Contact/Division | Telephone Number |
|---|---|---|
| Application Processing | iLINK Service Center | (800) 833-4876 |
| Bankruptcy | Policy Officer | (515) 242-3351 |
| Claims Processing | Claims Department | (515) 242-3344 |
| Cohort Default Rate Appeals | Cohort Appeals | (515) 242-3356 |
| Deferment/Forbearance | iLINK Service Center | (800) 833-4876 |
| Disbursement Information | iLINK Service Center | (800) 833-4876 |
| Guarantee Fee Billing | iLINK Service Center | (800) 833-4876 |
| Guarantee Status | iLINK Service Center | (800) 833-4876 |
| Late Disbursement | iLINK Service Center | (800) 833-4876 |
| Lender/School Reviews | Policy Officer | (515) 242-3351 |
| Lender/School Training | Policy Officer | (515) 242-3351 |
| Loan Consolidation | Loan Services | (515) 242-3353 |
| Partial Payments/Cancellations | iLINK Service Center | (800) 833-4876 |
| Payment Arrangements/ Defaulted Loans | Collections Department | (515) 242-3344 |
| Pre-Claims Assistance | Claims Department | (515) 242-3344 |
| Regulatory/Policy Questions | Policy Officer | (515) 242-3351 |
| Scholarships/Grants | Program Administration | (515) 242-3344 |
| Software Support | iLINK Service Center | (800) 833-4876 |
| Status Changes | iLINK Service Center | (800) 833-4876 |
| Supplies | Loan Services | (515) 242-3353 |

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# Kentucky Higher Education Assistance Authority (KHEAA)

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

**E-mail Addresses**

| | |
|---|---|
| Borrower Inquiries | inquiries@kheaa.com |
| School/Lender Inquiries | inquiries@kheaa.com |
| Ombudsman | ombudsman@kheaa.com |

**Fax Numbers**

| | |
|---|---|
| Alabama Office | 334-265-9750 |
| Executive Office | 502-696-7496 |
| Financial Affairs | 502-696-7425 |
| Guarantee Services | 502-696-7305 |
| Legal Services | 502-696-7293 |
| Information Systems | 502-696-7345 |
| Student Services | 502-696-7373 |

**KHEAA units are touch-tone accessible by dialing 1-800-928-8926, then 4 plus the four-digit extension number of the person or unit you are calling followed by the # button.**

**Alabama Student Loan Program** ..... 1-800-721-9720
100 N. Union Street, Suite 308
Montgomery, AL 36104
- Alabama Student Status
- Alabama School/Lender Operational Support
- Default Aversion for Alabama Students

**Address Update**
Borrower ..... Borrower Services ..... 1-800-928-8926
Lender ..... Becky Gilpatrick ..... 7281
School ..... Becky Gilpatrick ..... 7281

**Application Processing**
Schools/Lenders ..... Dana Case ..... 7449
Wendi Dailey ..... 7238
Suzanne Daniel ..... 7268
Rebecca Kiper. ..... 7243
Jennifer Long ..... 7217
Sherry Phillips ..... 7239
Kelly Sparrow ..... 7261
Students ..... 1-800-928-8926
Origination Services ..... 1-800-564-6068

**Business Development**
Chester Priest ..... 7266

**Change Processing - Cancellations/Refunds**
Marty Haggard ..... 7256
Anna Hubbard ..... 7267
John Wilson ..... 7288

**Claims** ..... 1-502-696-7234

**COMMONLINE**SM ..... Dana Case ..... 1-800-617-2699
Jennifer Long
Sherry Phillips
Kelly Sparrow

**Compliance Issues**
Lender ..... Dena Spivey ..... 7495
School ..... Mark Maidlow ..... 7276

**Consolidation** ..... Sherry Phillips ..... 7239
Kelly Sparrow ..... 7261

**Contracts**
Lender ..... Becky Gilpatrick ..... 7281
School ..... Becky Gilpatrick ..... 7281

**Default**
Appeals ..... Elaine Brumback ..... 7278
Rates ..... Elaine Brumback ..... 7278
Reports ..... Becky Gilpatrick ..... 7281

**Default Aversion** ..... 1-800-928-5327

**Default Collections** ..... 1-800-928-4241

**EFT** ..... Origination Services ..... 1-800-564-6068

**Entrance/Exit Interview Information** ..... Lissa Caldwell ..... 7277

**Forms** ..... 1-800-928-8926

**IRS Offsets** ..... Donna Jones ..... 7477

**KHEAA Branch Managers**
Alabama Student Loan Program ..... Tommy Dismukes ..... 1-800-721-9720
Claims Aversion and Processing Branch ..... Patricia Wells ..... 7212
Debt Recovery ..... Randy Petty ..... 7470
Default Portfolio Oversight ..... Tom Wantuck ..... 7578
Guarantee Services ..... Karen Haney ..... 7232
Origination Services ..... Mary Alice Wilkinson ..... 7450
Policy & Client Services ..... Dena Spivey ..... 7495
Publication & Outreach ..... Lori Powers ..... 7378
Student Aid ..... Michael Morgan ..... 7393

**Lender Manifest** ..... Wilma May ..... 7242

**Lender Operational Support** ..... 1-800-617-2699

**NSLDS** ..... Teree Nethery ..... 7249

**Ombudsman** ..... Elaine Brumback ..... 7278

**Origination Services**
Status Inquiries (Borrowers) ..... 1-800-564-6068
Application Processing ..... 1-800-564-6068
EFT ..... 1-800-564-6068

**Policy** ..... David Rayborn ..... 7273

**Regulations** ..... David Rayborn ..... 7273

**Repurchases** ..... Brenda Wilson ..... 7275

**School Operational Support** ..... 1-800-617-2699

**Status Inquiries**
Borrowers ..... 1-800-928-8926
Origination Services ..... 1-800-928-8926

**SSCR** ..... Raymond Lightfoot ..... 7246

**Technical Support** ..... 1-800-818-2678

**Training** ..... Lissa Caldwell ..... 7277

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

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

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

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# Michigan Higher Education Assistance Authority (MHEAA)

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

**517-373-0760**

**E-mail Address**
**mga@michigan.gov**

**Web Site**
**www.michigan.gov/mistudentaid**

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

**Fax Numbers**

| | |
|---|---|
| **Administrative** | **517-335-5258** |
| **Audit/Program Review** | **517-373-4939** |
| **Claims and Collections** | **517-335-5982** |
| **Customer Services** | **517-335-5983** |
| **Director's Office** | **517-335-6792** |
| **Guaranty Services** | **517-241-0155** |
| **Lender Services** | **517-335-5983** |
| **School Services** | **517-241-0155** |

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

**ADDRESS UPDATE**
Borrower ..... Customer Services ..... 1-888-272-5543
Lender ..... Lender Services ..... 39639
School ..... School Services ..... 36074

**BANKRUPTCY**
Lender or Borrower ..... Rich Ziebarth ..... 54539
School ..... Linda Sanchez ..... 39599

**BORROWER DEBT MANAGEMENT REPORT** ..... School Services ..... 36074

**CLAIMS**
Disability and Bankruptcy ..... Tom Montgomery ..... 36622
Repurchase ..... Tom Montgomery ..... 36622
Resubmission ..... Tom Montgomery ..... 36622
Returned or Rejected Claims ..... Tom Montgomery ..... 36622
Supplemental Payment Requests. Tom Montgomery ..... 36622

**CLOSED SCHOOLS** ..... Judy Byrnes ..... 34619

**COLLECTIONS**
Borrower Account Status ..... Collections ..... 55053
Eligibility ..... Collections ..... 55053

**COMMONLINE**SM ..... Flora Boles ..... 52882
CommonLine SM is a service mark of the National Council of Higher Education Loan Programs.

**CUSTOMER SERVICES**
Borrower Record Inquires ..... Customer Services ..... 1-800-824-7044
Consolidation Questions ..... Linda Sanchez ..... 39599
General Program Questions ..... Customer Services ..... 1-800-824-7044
Loan Processing and Status ..... Customer Services ..... 1-800-824-7044
NSLDS Issues ..... Linda Sanchez ..... 39599
Special Projects ..... Linda Sanchez ..... 39599

**COHORT DEFAULT RATES**
Appeals ..... Audit/Program Review ..... 39509
Rates ..... Audit/Program Review ..... 39509
Reports ..... Audit/Program Review ..... 39509

**DEFAULTED LOANS** ..... Collections ..... 55053

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

**DEFERMENTS** ..... Linda Sanchez ..... 39599

**EFT** (**E**lectronic **F**unds **T**ransfer) ... Jim Swisk ..... 37121

**ENTRANCE/EXIT INTERVIEW INFORMATION**
Borrower Debt Management Report ..... School Services ..... 36074
Brochures and Forms ..... School Services ..... 36074
Videotapes ..... School Services ..... 36074

**FLASH**
(**F**ast **L**oan **A**ccess **S**ystem for **H**elp) Automated Defaulted Loan Information .... Press #1 twice for system access
System Problems ..... Judy Byrnes ..... 34619

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

**FORMS AND SUPPLIES** ..... Mail Room ..... 34146

**FRAUD**
False Certification ..... Sam Duncan ..... 56770

**LENDER AND SCHOOL AUDITS AND REVIEWS** ..... Audit/Program Review ..... 39509

**LENDER SERVICES**
Electronic Processes ..... Lender Services ..... 36076
Issues/Concerns ..... Lender Services ..... 36076
Lender Agreements ..... Lender Services ..... 36076
Loan Discharges ..... Judy Byrnes ..... 34619
Teacher Loan Forgiveness ..... Judy Byrnes ..... 34619
Total and Permanent Disability ..... Tom Montgomery ..... 36622

***LOAN NOTES*** ..... Jim Peterson ..... 36944

**LOAN PROCESSING**
Borrower Record Inquiries ..... Customer Services ..... 1-800-824-7044
Consolidation Questions ..... Linda Sanchez ..... 39599
General Program Questions ..... Customer Services ..... 1-800-824-7044
Loan Processing and Status ..... Customer Services ..... 1-800-824-7044
NSLDS Issues ..... Linda Sanchez ..... 39599
Special Projects ..... Linda Sanchez ..... 39599

**NSLDS QUESTIONS** ..... Linda Sanchez ..... 39599

**POLICY & REGULATION QUESTIONS** ..... Audit/Program Review ..... 39509

**REHABILITATION** ..... Collections ..... 55053

**REPORTS**
Lender ..... Lender Services ..... 39639
School ..... School Services ..... 36074

**SCHOOL SERVICES**
Electronic Processes ..... School Services ..... 36074
Issues/Concerns ..... School Services ..... 36074
Loan Processing Scenarios ..... School Services ..... 36074
Site Visits ..... School Services ..... 36074

**SSN DISCREPANCIES** ..... Teresa Phelps ..... 36080

**TRAINING/WORKSHOPS**
School ..... School Services ..... 36074

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## Missouri Student Loan Program (MSLP)

3515 Amazonas Drive
Jefferson City, MO 65102

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

| Department | | Telephone Number |
|---|---|---|
| Administration | | (573) 751-2361 |
| Administrative Wage Garnishment | | (573) 751-3940 |
| ATOM (Automated Transfer of Money) disbursement clearinghouse | | (573) 526-7356 |
| | Fax | (573) 526-7730 |
| Attorney | | (573) 751-2361 |
| Audits | | (573) 522-2367 |
| Claims | | (800) 824-4893 |
| Client Services | | |
| Eastern District | | (314) 607-4447 |
| Southern District | | (417) 581-5087 |
| Northern and Central District | | (816) 891-9344 |
| Compliance | | (573) 751-8748 |
| Disputes | | (800) 473-6757 |
| | or | (573) 751-3940 |
| Information Center | | (800) 473-6757 |
| | or | (573) 751-3940 |
| Loan Services | | (800) 824-4893 |
| Policy | | (573) 751-1767 |
| Default Aversion | | (800) 473-6757 |
| | or | (573) 751-3940 |
| Operations | | (573) 751-1774 |
| Recovery | | (800) 824-4893 |

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## Montana Guaranteed Student Loan Program (MGSLP)

**Mailing Address:**

PO Box 203101
Helena, MT 59620-3101

**Street Address:**

2500 Broadway
Helena, MT 59601-4989

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

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

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## National Student Loan Program (NSLP)

Street: 1300 "O" Street, Lincoln, NE 68508
Mailing: P O Box 82507
Lincoln, NE 68501-2507
Telephone Number: (800)735-8778 or (402)475-8686
Fax Number: (402)479-6658
E-mail address: nslpcs@nslp.org

| Question Regarding | Contact/Division | Telephone Extension |
|---|---|---|
| Application Processing | Customer Service | 6300 |
| Claim Filing and Review | Claims | 6855 |
| Customer Service | Customer Service | 6300 |
| Closed School Discharge | Program Review/Compliance | 6410 |
| Cohort Default Rate Appeals | Program Review/Compliance | 6858 |
| Collection of Defaulted Loans | Collections | 6380 |
| Default Aversion Assistance | Preclaim | 6800 |
| Default Management/Default Prevention | Delinquency and Default Prevention | 6651 |
| Electronic Loan Processing (ELITE, CommonLine) | Business Development | 6819 |
| Electronic Products and Interfaces | Business Development | 6819 |
| False Certification | Program Review/Compliance | 6410 |
| Form and Publication Order | Customer Service | 6300 |
| Guarantee Fee Billing | Accounting and Finance | 6637 |
| Guarantee Processing | Customer Service | 6300 |
| Guarantee Status | Customer Service | 6300 |
| Lender Participation | Business Development | 6954 |
| Lender/School Relations | Business Development | 6954 |
| Lender and School Reporting | Customer Service/Account Administration | 6300 or 6847 |
| Lender/School Reviews | Program Review/Compliance | 6959 |
| Lender/School Training | Corporate Promotions | 6827 |
| National Student Clearinghouse | Account Administration | 6850 |
| National Student Loan Data System | Account Administration | 6847 |
| Policy Inquiries (Lender) | Policy and Planning | 6706 or 6837 |
| Policy Inquiries (School) | Policy and Planning | 6707 or 6837 |
| School Participation | Business Development | 6954 |
| Student Status Change Reporting | Account Administration | 6850 |
| Teacher Loan Forgiveness | Program Review/Compliance | 6410 |
| Unpaid Refund | Program Review/Compliance | 6410 |

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## New Hampshire Higher Education Assistance Foundation

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

Loan Processing Department
(603) 225-6612 ext. 6600
Fax: (603) 224-2581
loanprocessing@gsmr.org

Compliance Department
(603) 225-6612
Fax: (603) 226-0356
compliance@gsmr.org

Claims & Recoveries Department
(603) 225-6612 ext. 6003
Fax: (603) 226-0356
claims@gsmr.org

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

Information Services
Technical Help Desk
(603) 225-6612 ext. 100

Center for College Planning
(603) 225-6612 ext. 119
Fax: (603) 224-2581
info@gsmr.org

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## New Jersey Higher Education Student Assistance Authority

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

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

| | |
|---|---|
| Audits & Quality Assurance Unit: | |
| LaRS Reporting | (800)792-8670 Ext. 4026 |
| Program Review | (800)792-8670 Ext. 4026 |
| Client Services Unit: | |
| Application Processing | (800)792-8670 |
| The Authority Newsletter | (800)792-8670 Ext. 3214 |
| Lender/School Relations | (800)792-8670 Ext. 7346 |
| Training | (800)792-8670 Ext. 7346 |
| Governmental Relations & Legal Affairs: | |
| Compliance Issues | (800)792-8670 Ext. 7121 |
| Regulatory Interpretation | (800)792-8670 Ext. 7121 |
| Loan Processing Unit: | |
| Alternative Loan Program (NJCLASS) | (800)792-8670 Ext. 4020 |
| CommonLine | (800)792-8670 Ext. 3220 |
| Lender of Last Resort | (800)792-8670 Ext. 3220 |
| Lender Reporting | (800)792-8670 Ext. 4600 |
| NSLDS | (800)792-8670 Ext. 7873 |
| NSLDS Lender Manifest | (800)792-8670 Ext. 7873 |
| Enrollment Reporting | (800)792-8670 Ext. 4600 |
| Ombudsman Unit: | |
| Closed School | (800)792-8670 Ext. 3351 |
| False Certification | (800)792-8670 Ext. 3351 |
| Ombudsman | (800)792-8670 Ext. 3351 |
| Unpaid Refund | (800)792-8670 Ext. 3351 |
| Preclaim/Claim Unit: | |
| Claim Filing & Review | (800)792-8670 Ext. 3241 |
| Cohort Default Rate Appeals | (800)792-8670 Ext. 3996 |
| Default Aversion/Debt Management | (800)792-8670 Ext. 3996 |
| Due Diligence/Delinquency Notification | (800)792-8670 Ext. 3241 |
| Post-Default Collections/Servicing Unit: | |
| Default Collections | (800)792-8670 Ext. 3300 |
| Reinstatement/Rehabilitation | (800)792-8670 Ext. 3300 |
| Bankruptcy | (800)792-8670 Ext. 3882 |
| NJCLASS Servicing | (800)792-8670 Ext. 3300 |
| Research Unit and Policy Analysis: | |
| Research & Statistics | (800)792-8670 Ext. 7304 |

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## New Mexico Student Loan Guarantee Corporation (NMSLGC)

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

| Question Regarding | Telephone Number |
|---|---|
| Administration | (505) 345-8821 Ext. 1012 |
| Customer Assistance for Schools and Lenders | (505) 279-3070 Ext. 1471 |
| Customer Assistance for Students | (505) 279-3070 Ext. 1471 |
| Compliance and Program Review | (505) 345-8821 Ext. 1360 |
| Customer Service and Training | (505) 345-8821 Ext. 1373 |
| Claims | (505) 345-8821 Ext. 1361 |
| Post Claim: | (505) 345-8821 Ext. 1370 |
| Loan Rehabilitation | (505) 345-8821 Ext. 1361 |
| Subrogation | (505) 345-8821 Ext. 1370 |
| Wage Garnishment | (505) 345-8821 Ext. 1367 |
| NSLDS | (505) 345-8821 Ext. 1351 |

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

99 Washington Ave.
Albany, NY 12255

**GENERAL TELEPHONE NUMBERS**

| | |
|---|---|
| General Information - Application Status, Loan Processing | (888) NYSHESC |
| Default Prevention and Collection | (800) 666-0991 |

**BUREAU OF STUDENT AND SCHOOL SERVICES**

| | |
|---|---|
| Manager | (518) 473-1680 |
| Solutions Team | (518) 473-0480 |
| Loan Processing | (888) NYSHESC |
| Student Certification | (888) NYSHESC |
| Renewed Eligibility for Financial AID/Title IV Aid (REFA, RETA) | (888) NYSHESC |
| School Information Update | (518) 474-2211 |

**OFFICE OF DEFAULT PREVENTION AND RECOVERY SERVICES**

| | |
|---|---|
| Assistant Vice President | (518) 408-0004 |
| Director | (518) 402-1478 |
| Lender and School Information and Assistance Unit | (800) 666-0991 |
| Default Repurchases | (800) 666-0991 |
| Litigation and Vendor Collection | (800) 666-0991 |

**BUREAU OF PROGRAM FINANCE**

| | |
|---|---|
| Assistant Vice President | (518) 402-1478 |
| Director | (518) 402-1219 |
| Default Finance | (518) 402-1533 |
| PCA/Claim Processing | (518) 402-1313 |
| Rehabilitation | (518) 402-1363 |
| Disability | (518) 402-1313 |

**BUREAU OF PROGRAM POLICY AND INSTITUTIONAL REVIEW**

| | |
|---|---|
| Director | (518) 473-1575 |
| Program Policy | (518) 473-3986 |
| Institutional Review | (518) 473-3986 |

**OFFICE OF COUNSEL**

| | |
|---|---|
| Deputy Counsel | (518) 473-1581 |
| Bankruptcy | (518) 473-1581 |

**CUSTOMER SERVICES**

| | |
|---|---|
| Director | (518) 473-4096 |
| Regional Service Coordinators | (518) 474-8644 |
| Training and Outreach | (518) 474-8644 |

| | |
|---|---|
| **DEBT MANAGEMENT INITIATIVES** | (518) 474-2844 |
| Advocate Unit | (888) 215-0196 |

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# North Carolina State Education Assistance Authority Guarantee Agency

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

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

## Prior to Default

| Question Regarding | Contact/Division | Telephone Number |
|---|---|---|
| School Inquiries: | | |
| Adjustments | Loan Origination | 800/532-2832 or 919/834-2893 |
| Application Processing | Loan Origination | 800/532-2832 or 919/834-2893 |
| Deferments/Forbearance | Repayment Services | 800/772-2838 or 919/821-4743 |
| Electronic Services | Electronic Specialist | 800/532-2832 or 919/834-2893 |
| Clearinghouse | Repayment Services | 800/532-2832 or 919/834-2893 |
| CommonLine | Electronic Specialist | 800/532-2832 or 919/834-2893 |
| EFT | Electronic Specialist | 800/532-2832 or 919/834-2893 |
| NSLDS | Repayment Services | 800/532-2832 or 919/834-2893 |
| NC National College Savings Program | Information Call Center | 800/600-3453 or 919/834-2893 |
| NC Student Incentive Grant | Grant Coordinator | 800/532-2832 or 919/834-2893 |
| Repayment | Special Collections | 800/772-2838 or 919/821-4743 |
| School Services: | | |
| General Information | Information Call Center | 800/532-2832 or 919/834-2893 |
| Exit Counseling | Information Call Center | 800/532-2832 or 919/834-2893 |
| Publications | Information Call Center | 800/532-2832 or 919/834-2893 |
| Policy/Regulation Inquiries | Information Call Center | 800/532-2832 or 919/834-2893 |
| Student Status Verification | Repayment Services | 800/532-2832 or 919/834-2893 |
| Borrower Inquiries: | | |
| Prior to Repayment | Information Call Center | 888/CFI-6400 or 919/821-4771 |
| Repayment | Collection Services | 800/771-2838 or 919/821-4743 |

### For Default Aversion Assistance and Inquiries After a Borrower Has Gone Into Default, Contact

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

| | | |
|---|---|---|
| Default Aversion Assistance | Claim Accounting & Compliance | 800/700-1775 ext. 129 |

## After Default

| Question Regarding | Contact/Division | Telephone Number |
|---|---|---|
| Compliance School Questions | Claim Accounting & Compliance | 919/248-4689 |
| Loans in Default | Repayment Services | 800/544-1644 |
| Accounts in Litigation | Legal Affairs | 800/544-1644 |
| NSLDS | Administration | 919/248-4699 |
| Lender Relations/Customer Service | Ombudsman | 800/700-1775 ext. 626 |

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## Northwest Education Loan Association

190 Queen Anne Avenue North
Suite 300
Seattle WA 98109
**Main NELA Telephone Numbers**
(206) 461-5300
(800) 562-3001
Fax: (206) 461-5449

| Topic | Department | Extension |
|---|---|---|
| **LENDER AND SCHOOL QUESTIONS** | | |
| Application Processing | Loan Origination | Ext. 7280 |
| Assistance Using NELA Services | Account Management | Ext. 5458 |
| Claims Processing | Claims | Ext. 7251 |
| Default Repayment | Default Repayment | Ext. 5461 |
| Disbursement Processing | Fee and Service Billing | Ext. 5456 |
| Electronic Product Technical Assistance | Technical Support | Ext. 5487 |
| Ordering NELA Forms and Brochures | Forms and Brochure Orders | Ext. 5306 |
| Help for Borrowers, Students and Parents | Loan Information Unit | Ext. 5470 |
| Information for Schools and Lenders Regarding NELA | Client Services | Ext. 5341 |
| IRS Offset | Repayment Operations | Ext. 5353 |
| Lender Relations | Client Services | Ext. 5341 |
| Loan Refunds | Loan Refund | Ext. 7280 |
| Lender Sales | Status Management/Enrollment | Ext. 7251 |
| Loan Repayment Information | Loan Information Unit | Ext. 5470 |
| NSLDS Reporting | Status Management/Enrollment | Ext. 7251 |
| Policy and Compliance Schools | Policy and Program Assistance | Ext. 5325 |
| Policy and Compliance Lenders | Policy and Program Assistance | Ext. 5351 |
| Repayment Assistance | Repayment Assistance | Ext. 5398 |
| Rehabilitation Loan Assistance | Repayment Operations | Ext. 5463 |
| School Relations | Client Services | Ext. 5341 |
| Training | Training | Ext. 5459 |
| Wage Garnishment | Repayment Operations | Ext. 5463 |
| **BORROWER QUESTIONS** | | |
| Application, Disbursement and Loan History | Loan Information | (800) 979-4441 |
| Repayment, Deferment, and Consolidation Information | Loan Repayment Hotline | (800) 552-6924 |
| Borrowers with Delinquency Reported by Lenders | Pre-Claim Assistance | (800) 552-6642 |
| Defaulted Loans | Default Repayment | (800) 552-0686 |
| Borrower Advocate | | (800) 562-3001 |
| Privacy Policy | Quality Assurance | (800) 562-3001 |

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## Oklahoma State Regents for Higher Education
## Oklahoma Guaranteed Student Loan Program

*http://www.ogslp.org*

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

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

Telephone Number: (405) 234-4300
1-800-247-0420
Fax Number: (405) 234-4390
TDD Number: (405) 234-4511
TDD Number for Defaulted Borrowers: (405) 234-4366

| Question Regarding | Contact/Division | Telephone Number |
|---|---|---|
| Application Processing | Customer Service | 1-800-247-0420 ext. 340 |
| Bankruptcy | Claims Review | 1-800-247-0420 ext. 332 |
| Claim Processing | Claims Review | 1-800-247-0420 ext. 332 |
| Cohort Default Rate | Legal | 1-800-247-0423, ext.489 / mheid@osrhe.edu |
| Cohort Default Rate Appeals | Legal | 1-800-247-0423, ext.489 / mheid@osrhe.edu |
| Compliance | Compliance | 1-800-247-0423, ext. 225 |
| Customer Service - Schools/Lenders | Client Relations | 1-800-247-0420 ext. 329 |
| Customer Service - Students | Customer Service | 1-800-442-8642 |
| Deferments and Forbearance | Customer Service | 1-800-247-0420 ext. 340 |
| Defaulted Loans | Recoveries | 1-800-247-0420 ext. 375 |
| Disbursement Information | Customer Service | 1-800-247-0420 ext. 340 |
| Disbursement Services | Client Relations | 1-800-247-0420 ext. 329 |
| Electronic Products and Services | Client Relations | 1-800-247-0420 ext. 329 |
| False Certification/Potential Fraud | Compliance | 1-800-247-0423, ext 225 |
| Fee Billing | Loan Services | 1-800-247-0420 ext. 330 |
| Forms, Supplies, & Publications | Client Relations | 1-800-247-0420 ext. 329 |
| Guarantee Status | Customer Service | 1-800-247-0420 ext. 340 |
| Interest Rates | Customer Service | 1-800-247-0420 ext. 340 |
| IRS Offset | Compliance | 1-800-247-0423, ext 225 |
| Late Disbursement | Loan Services | 1-800-247-0420 ext. 331 |
| Legal Counsel | Legal | 1-800-247-0423 |
| Lender of Last Resort | Client Relations | 1-800-247-0420 ext. 329 |
| Lender/School Training | Policy Implementation, Training & Communications | 1-800-247-0420, ext. 440 |
| Loan Consolidation | Customer Service | 1-800-247-0420 ext. 340 |

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## Oklahoma State Regents for Higher Education
## Oklahoma Guaranteed Student Loan Program

| Question Regarding | Contact/Division | Telephone Number |
|---|---|---|
| NSLDS | Loan Services | 1-800-247-0420 ext. 331 |
| Ombudsman | Ombudsman | 1-800-247-0420, ext. 341 |
| Policy/Regulatory Questions | Policy Implementation, Training & Communications | 1-800-247-0420, ext. 440 |
| Pre-Claims Information | Default Prevention | 1-800-358-5460 |
| Program Reviews | Compliance | 1-800-247-0423, ext 225 |
| Repayment Information | Customer Service | 1-800-247-0420 ext. 340 |
| Repurchase/Rehabilitation | Accounting | 1-800-247-0420 ext. 267 |
| School Closure | Compliance | 1-800-247-0423, ext 225 |
| Special Allowance | Policy Implementation, Training & Communications | 1-800-247-0420, ext. 440 |
| Student Status Confirmation Report | Loan Services | 1-800-247-0420 ext. 330 |
| Wage Garnishment | Legal | 1-800-777-3394 |

## Oregon Student Assistance Commission (OSAC)

1500 Valley River Drive, Suite 100
Eugene, OR 97401
Telephone Number: (541) 687-7400 or (800) 452-8807 toll-free
Fax Number: (541) 687-7426
**Website: www.osac.state.or.us**

| Question Regarding | Telephone Number |
|---|---|
| **Agency Administration** | (541) 687-7400 |
| Agency General Toll-Free | (800) 452-8807 |
| **Claims/Collections** | (541) 687-7366 |
| Claims/Collections Toll-Free | (800) 457-0135 |
| Claims/Collections, e-mail | shelley.m.turner@state.or.us |
| **Default Prevention** | (541) 687-7458 |
| Default Prevention Toll-Free | (800) 261-4524 |
| Default Prevention, e-mail | terri.r.keller@state.or.us |
| **FAX** | |
| Administration | (541) 687-7419 |
| Claims/Collections & Grants | (541) 687-7426 |
| Guarantee Services/Default Prevention | (541) 687-7391 |
| **Grants and Scholarships** | (541) 687-7395 |
| Grants and Scholarships, e-mail | kathleen.m.hynes@state.or.us |
| **Guarantee Services** | (541) 687-7425 |
| Guarantee Services, e-mail | kathy.l.kordon@state.or.us |
| **Loan Rehabilitation** | (541) 687-7355 |
| Loan Rehabilitation, e-mail | anna.m.mitchell@state.or.us |
| **NSLDS** | |
| General issues | (541) 687-7375 |
| Postclaim issues | (541) 687-7447 |
| **Program Review** | (541) 687-7379 |
| Program Review, e-mail | carolyn.e.sinclair@state.or.us |
| **Regulation Assistance** | (541) 687-7380 |
| Regulation Assistance, e-mail | susan.r.degen@state.or.us |

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## Rhode Island Higher Education Assistance Authority (RIHEAA)

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

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

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## South Carolina Student Loan Corporation

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

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

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## Student Loan Guarantee Foundation of Arkansas (SLGFA)

219 South Victory
Little Rock, Arkansas 72201-1884
Telephone Number: (800) 622-3446
(501) 372-1491
Fax Number: (501) 688-7675
www.slgfa.org

| Question Regarding | Contact/Division | Telephone Number* |
|---|---|---|
| Bankruptcy Repurchase/Status | Federal & Default Reporting Department | ext. 639 |
| Borrower Debt Management Reports | Default Prevention Department | ext. 690 |
| Brochures & Publications | School & Lender Services Department | ext. 636 |
| Claims Aversion | Claim Management Department | ext. 670 |
| Claims Processing | Claim Management Department | ext. 640 |
| Closed School | Training & Technical Assistance Department | ext. 648 |
| Cohort Rate Appeals | Training & Technical Assistance Department | ext. 648 |
| Compliance & Regulatory Training | Training & Technical Assistance Department | ext. 638 |
| Contracts & Agreements | School & Lender Services Department | ext. 633 |
| Corporate Communications | School & Lender Services Department | ext. 632 |
| Default Collections | Default Contract Administrator | ext. 680 |
| Default Prevention Assistance | Default Prevention Department | ext. 690 |
| Default Repurchases | Federal & Default Reporting Department | ext. 639 |
| Disbursement Services | Lender Funds Department | ext. 622 |
| Electronic Application Processing | Loan Maintenance Department | ext. 665 |
| FFELP Forms | Office Administration Department | ext. 650 |
| Guarantee Operations/Processing | Loan Maintenance Department | ext. 665 |
| IRS Offset | Default Contract Administrator | ext. 680 |
| Legislative Information | Policy & Compliance Division | ext. 638 |
| Lender Fee Billings | Lender Funds Department | ext. 621 |
| Loan Adjustments | Customer Information & Assistance Department | ext. 661 |
| Loan Rehabilitation | Federal & Default Reporting Department | ext. 639 |
| Loan Updates/Changes | Customer Information & Assistance Department | ext. 661 |
| LRA Submissions, Updates/Resolutions | Loan Maintenance Department | ext. 665 |
| NSLDS Reporting | Customer Information & Assistance Department | ext. 654 |
| Products and Services | School & Lender Services Department | ext. 636 |
| Program Review/Compliance | Training & Technical Assistance Department | ext. 638 |
| SSCR Transactions | Loan Maintenance Department | ext. 665 |
| Wage Garnishment | Federal & Default Reporting Department | ext. 639 |

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

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# Student Loans of North Dakota (SLND)

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

| SLND-ADMINISTRATION | | INTERNET ADDRESSES |
|---|---|---|
| Director | Julie Kubisiak..... ....1-701-328-5621 | jakubisi@state.nd.us |
| Administrative Assistant | Karen Keller ..... .....328-5791 | kkeller@state.nd.us |

| SLND-GUARANTOR | | |
|---|---|---|
| Associate Director | Wally Erhardt ..... .....328-5654 | werhardt@state.nd.us |
| Program Reviews | Char Feist ..... .....328-5753 | cfeist@state.nd.us |
| Claim Processing | Diane Sperle ..... .....328-5669 | dsperle@state.nd.us |
| Data Processing Coordinator | Karen Iverson..... .....328-5663 | kiverson@state.nd.us |
| **Processing**: | | |
| Applications, deferments, loan transfer statements, repayment manifests and updates to enrollment status for lenders and schools | Joyce Fetch..... .....328-5755 | jfetch@state.nd.us |
| Applications, cancellations and disbursements for lenders and schools | Elaine Fischer..... .....328-5754 | efischer@state.nd.us |
| **New Loans**: | | |
| Supervisor | Holly Schirado..... .....328-5751 | hschirad@state.nd.us |
| Consolidation Loans and Alternative Loans | Marla Belohlavek .... .....328-5774 | mbelohla@state.nd.us |
| Cancellations/Revisions | Jeanne Thomas ..... .....328-5761 | jthomas@state.nd.us |
| General New Loans Information | ..... .....328-5763 | |
| **Collections**: | | |
| Supervisor | David Plum ..... .....328-5707 | dplum@state.nd.us |
| Preclaim Assistance | Jenny Kringstad ..... .....328-5680 | jkringst@state.nd.us |
| | Lori Sayler..... .....328-5655 | lsayler@state.nd.us |
| Postclaim Wage Garnishments | Wanda Delvo..... .....328-5744 | wdelvo@state.nd.us |
| Bankruptcy | Don Schmid ..... .....328-5708 | dschmid@state.nd.us |
| Skip Tracing | Bill Blumhagen..... .....328-5757 | bblumhag@state.nd.us |

**COLLEGE INFORMATION SERVICE**
**1-800-554-2717**

Peggy Anderson .....328-5882 panderson@state.nd.us

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## Tennessee Student Assistance Corporation

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

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

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# Texas Guaranteed (TG)

www.tgslc.org

U.S. Mail:
P.O. Box 201725
Austin, TX 78720-1725

Overnight Mail:
2929 Longhorn Blvd., Ste. 106
Austin, TX 78758

Visitors:
13809 N. Hwy. 183, Ste. 100
Austin, TX 78750-1240

Telephone Number: Direct (512) 219-5700; Texas Customers (800) 252-9743; National Customers (800) 332-1455
E-mail: Texas Customers - customer.services@tgslc.org; National Customers - tgnational@tgslc.org; TG Staff - firstname.lastname@tgslc.org
Fax Number: Texas Customers (512) 219-4525; National Customers (512) 219-4989

| Question Regarding | Contact/Division | Telephone Number / Email | Fax Number |
|---|---|---|---|
| Adventures In Education | Communications | (800) 252-9743, ext. 4588 | (512) 219-4850 |
| Annual Report | Communications | (800) 252-9743, ext. 2878 | (512) 219-4850 |
| Application Processing Resolution | Loan Guarantee Operations | (800) 446-5616; lgo.helps@tgslc.org | (512) 336-4777 |
| Applications with Prior Defaults | | | |
| Guarantee Inquiries | Customer Assistance | (800) 845-6267; cust.assist@tgslc.org | (512) 219-4633 |
| Reinstated Eligibility | Collections | (800) 222-6297; collections@tgslc.org | (512) 219-4739 |
| Bankruptcy | Collections | (800) 222-6297; collections@tgslc.org | (512) 219-4741 |
| Borrower Support | Customer Assistance | (800) 845-6267; cust.assist@tgslc.org | |
| Cancellations | Loan Guarantee Operations | (800) 446-5616; lgo.helps@tgslc.org | (512) 336-4777 |
| Claims | Claims | (800) 252-9743 | (512) 219-4514 |
| Closed School Discharge | Customer Assistance | (800) 845-6267; cust.assist@tgslc.org | (512) 219-4633 |
| Cohort Default Information/Rate Appeals | Compliance Administrative Operations | (800) 252-9743, ext. 4701 | (512) 219-4619 |
| Collections | Collections | (800) 222-6297; collections@tgslc.org | (512) 219-4739 |
| Consolidation | | | |
| Technical Information | Loan Guarantee Operations | (800) 446-5616; lgo.helps@tgslc.org | (512) 336-4777 |
| Borrower Information | Customer Assistance | (800) 845-6267; cust.assist@tgslc.org | (512) 219-4633 |
| Cures/Rejects/Recalls | Claims | (800) 252-9743 | (512) 219-4514 |
| Status Inquiries | Customer Assistance | (800) 845-6267; cust.assist@tgslc.org | (512) 219-4633 |
| Default Aversion Assistance | Default Prevention | (800) 338-4752; prevent.default@tgslc.org | (512) 219-4630 |
| Deferments/Forbearances | Customer Assistance | (800) 845-6267; cust.assist@tgslc.org | (512) 219-4633 |
| Demographic Updates | Loan Guarantee Operations | (800) 446-5616; lgo.helps@tgslc.org | (512) 336-4777 |
| Educational Alliances | Educational Alliances | (800) 252-9743, ext. 4964 | (512) 219-4603 |
| False Certification | Compliance Administrative Operations | (800) 252-9743, ext. 4775 | (512) 219-4619 |
| Fee Billings/Loan Disbursement Reporting | Accounting | (800) 252-9743, ext. 4566; acct.processing@tgslc.org | (512) 219-4513 |
| Forms/Publications | Customer Services | (800) 252-9743, ext. 4546; customer.services@tgslc.org | (512) 219-4525 |
| Institutional Data Reports | Customer Services | (800) 332-1455; product.support@tgslc.org | (512) 219-4525 |
| Interest Rates | Customer Assistance | (800) 845-6267; cust.assist@tgslc.org | (512) 219-4633 |
| Internal Audit | Internal Audit | (800) 252-9743, ext. 4616 | (512) 219-4619 |
| Investigations/Potential Fraud | Internal Audit/Investigations | (800) 252-9743, ext. 4760 | (512) 219-4619 |
| Legislative/Congressional Liaison | Governmental Affairs | (800) 252-9743 | (512) 219-4932 |
| Lender of Last Resort | Loan Guarantee Operations | (800) 446-5616; lgo.helps@tgslc.org | (512) 336-4777 |
| Lender Support (non-technical) | Customer Assistance | (800) 845-6267; cust.assist@tgslc.org | (512) 219-4633 |
| Lottery Garnishment | Collections | (800) 222-6297; collections@tgslc.org | (512) 219-4829 |
| *Mapping Your Future* | *Mapping Your Future* | (800) 252-9743, ext. 4539 | (512) 219-4989 |

*Continued on Next Page…*

# Texas Guaranteed (TG)

| Question Regarding | Contact/Division | Telephone Number / Email | Fax Number |
|---|---|---|---|
| Media and Public Information | Communications | (800) 252-9743, ext. 4990 | (512) 219-4850 |
| National Student Loan Data System | Operations | (800) 252-9743, ext. 4570 | (512) 219-4633 |
| CAM | Operations | (800) 252-9743, ext. 4570 | (512) 219-4633 |
| Lender Manifest | Operations | (800) 252-9743, ext. 2852 | (512) 219-4633 |
| Enrollment Processing | Operations | (800) 252-9743, ext. 4570 | (512) 219-4633 |
| Newsletters | Communications | (800) 252-9743, ext. 2817 | (512) 219-4850 |
| Ombudsman | Office of the President | (800) 252-9743, ext. 4502 | (512) 219-4603 |
| Participation Agreements | Compliance Administrative Operations | (800) 252-9743 | (512) 219-4619 |
| Professional Licensing Renewals | Collections | (800) 222-6297; collections@tgslc.org | (512) 219-4829 |
| Program Reviews/Audits | Program Review | (800) 252-9743, ext. 4543 | (512) 219-2849 |
| Rehabilitations | Collections | (800) 222-6297; collections@tgslc.org | (512) 219-4829 |
| Repurchases | Collections | (800) 222-6297; collections@tgslc.org | (512) 219-4829 |
| Research and Statistical Reports | Research and Analytical Services | (800) 252-9743 | (512) 219-4514 |
| School Support (non-technical) | Customer Assistance | (800) 845-6267; cust.assist@tgslc.org | (512) 219-4633 |
| Speakers' Bureau | Customer Services | (800) 252-9743, ext. 4650; customer.services@tgslc.org | (512) 219-4525 |
| Special Allowance Rates | Customer Assistance | (800) 845-6267; cust.assist@tgslc.org | (512) 219-4633 |
| *TG Online* | Communications | (800) 252-9743, ext. 4547 | (512) 219-4850 |
| Teacher Loan Forgiveness | Customer Assistance | (800) 845-6267; cust.assist@tgslc.org | (512) 219-4633 |
| Technical Support (Product Related) | Customer Services | (800) 332-1455; product.support@tgslc.org | (512) 219-4525 |
| Texas Awareness Initiatives | | | |
| Events/Product Orders | Educational Alliances | (800) 252-9743, ext. 4784 | (512) 219-4603 |
| Training | Customer Services | (800) 252-9743, ext. 2835; customer.services@tgslc.org | (512) 219-4525 |
| Treasury Offset | Collections | (800) 222-6297; collections@tgslc.org | (512) 219-4829 |
| Unpaid Refunds | Compliance Administrative Operations | (800) 252-9743, ext. 4761 | (512) 219-4619 |
| Wage Garnishment | Collections | (800) 222-6297; collections@tgslc.org | (512) 219-4741 |
| Web Sites | Communications | (800) 252-9743, ext. 4588 | (512) 219-4850 |

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

www.usafunds.org

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

***Location***
Crosspoint Plaza One
10475 Crosspoint Boulevard
Suite 230
Indianapolis, IN. 46256-3323

***USA Funds:***

| Topic | Contact | Phone Number/E-Mail | Fax Number |
|---|---|---|---|
| General Assistance | General Assistance | 866-329-7673 | |
| Compliance Operations | Compliance Issues<br>Program Reviews<br>Cohort Default Rates<br>Unpaid Refund | 317-806-1255 | 317-806-1207 |
| Investigations | Fraud and abuse<br>False Certification | 866-329-7673 | 317-806-1207 |
| Loan Policy | Internet Inquiries<br>Policy Inquiries<br>Regulatory Inquiries<br>Common Manual Inquiries | askpolicy@usafunds.org<br>317-806-1251 | <br>317-806-1206 |
| Ombudsman | Official Inquiries | 317-806-1260 | 317-806-1206 |

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

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

*Location*: 11100 USA Parkway
Fishers, IN 46038-9213

***Arizona***
*Mailing*: P.O. Box 16522
Mesa, AZ 85211-6522

*Location*: 1001 W. Southern Avenue
Mesa, AZ 85210-4905

| | | | |
|---|---|---|---|
| www.salliemae.com | Guarantee Information<br>Disbursement Information<br>Account Information<br>Online News<br>Interactive Calculators | | |
| Customer Assistance | General Information<br>Status of Applications<br>Loan Status Updates | 800-824-7044 | 317-595-1239 |
| Electronic Services | WhizKid™ Support<br>CommonLine Support | 800-348-4606<br>602-814-1801 | 317-578-6829 |
| USA Funds University | School and Lender Training | 800-428-9250<br>Ext. 6560 | 317-822-8641 |

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

| Topic | Contact | Phone Number/E-Mail | Fax Number |
|---|---|---|---|
| Marketing | Products & Services | 800-428-9250<br>Ext. 6560 | 317-951-5474 |
| Loan Disbursement | Electronic funds transfer (WhizFund™) | 317-578-6354 | 317-578-5848 |
| Loan Consolidation | Applications/Information | 800-448-3533 | 317-598-4175 |
| Default Prevention | Delinquent Accounts<br>Default Aversion | 800-635-3743<br>800-635-3783 (Spanish) | 800-635-3781 or<br>317-596-8397 |
| Claim Management | Claims<br>Cures, Rejects & Recalls<br>Closed School Discharge | 800-428-9250<br>Ext. 2506 | 317-578-6289 |
| School/Borrower Post-Claim Support | Post Claim Assistance | 800-331-2314 | 317-595-1265 |

## Utah Higher Education Assistance Authority (UHEAA)

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

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

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

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

| Function | Telephone Number |
|---|---|
| Accounting and Finance Branch | (801) 321-7286 |
| Borrower Services Group | (801) 321-7294 |
| Claims Review Group | (801) 321-7225 |
| Compliance and Program Review Team | (801) 321-7220 |
| Loan Management Services Group | (801) 321-7246 |
| Loan Purchase Program Oversight and Coordination Branch | (801) 321-7295 |
| Loan Origination Services Group | (801) 321-7236 |
| Policy and Development Division | (801) 321-7166 |
| Postclaim Services Group | (801) 321-7272 |

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# Vermont Student Assistance Corporation (VSAC)

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

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

| Function | Contact | Phone/Ext/Internet | |
|---|---|---|---|
| School Services | School Services Phone Group | 1-888-307-8722 | |
| School Compliance | Marcia Vance | Ext. 273 | vance@vsac.org |
| Lender Compliance | Jaye O'Connell | Ext. 388 | oconnell@vsac.org |
| Borrower Services | Loan Customer Service Counselors | 1-800-798-VSAC (1-800-798-8722) | |
| | | | Info@vsac.org |
| PLUS Applicant Credit Review | PLUS Credit Counseling Team | Ext. 6525 | |

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

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

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

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

**GRANT PROGRAM (1-800-882-4166)**

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

**SCHOLARSHIP PROGRAMS (1-888-253-4819)**

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

**OUTREACH PROGRAM (1-800-642-3177)**

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

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# 2 About the FFELP


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2.1.B Types of Loans Available ..... 1

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# 2.1 The Federal Family Education Loan Program (FFELP)

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

## 2.1.A Overview

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

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

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

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

## 2.1.B Types of Loans Available

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

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

- A **subsidized Federal Stafford loan** is available to an eligible student attending a participating postsecondary school. A student who demonstrates financial need is eligible to have the federal government pay the interest on the loan to the lender until repayment of the loan begins and during any deferment periods. The student is allowed a grace period (usually six months) after leaving school or dropping below half-time enrollment before repayment begins. Repayment of the loan is scheduled over a maximum period of 10 years, or 25 years for borrowers eligible for an extended repayment schedule. (See section 9.8).

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

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

scheduled over a maximum period of 10 years, or 25 years for borrowers eligible for an extended repayment schedule. (See section 9.8).

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

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

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

## 2.2 The Life of a FFELP Loan

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

**Phase 1: Origination**
The school certifies the applicant's eligibility, and the lender approves the loan and applies for the guarantee.

**Phase 2: The Interim Period**
The school and lender manage the loan while the borrower or student is in school, and during any grace period to which the borrower is entitled.

**Phase 3: Repayment**
The lender maintains, or services, the loan from the time the borrower is to begin making payments on the loan until the loan is paid in full by the borrower, ~~or~~ paid by consolidation, paid by the guarantor as a claim, or fully discharged or forgiven.[1]

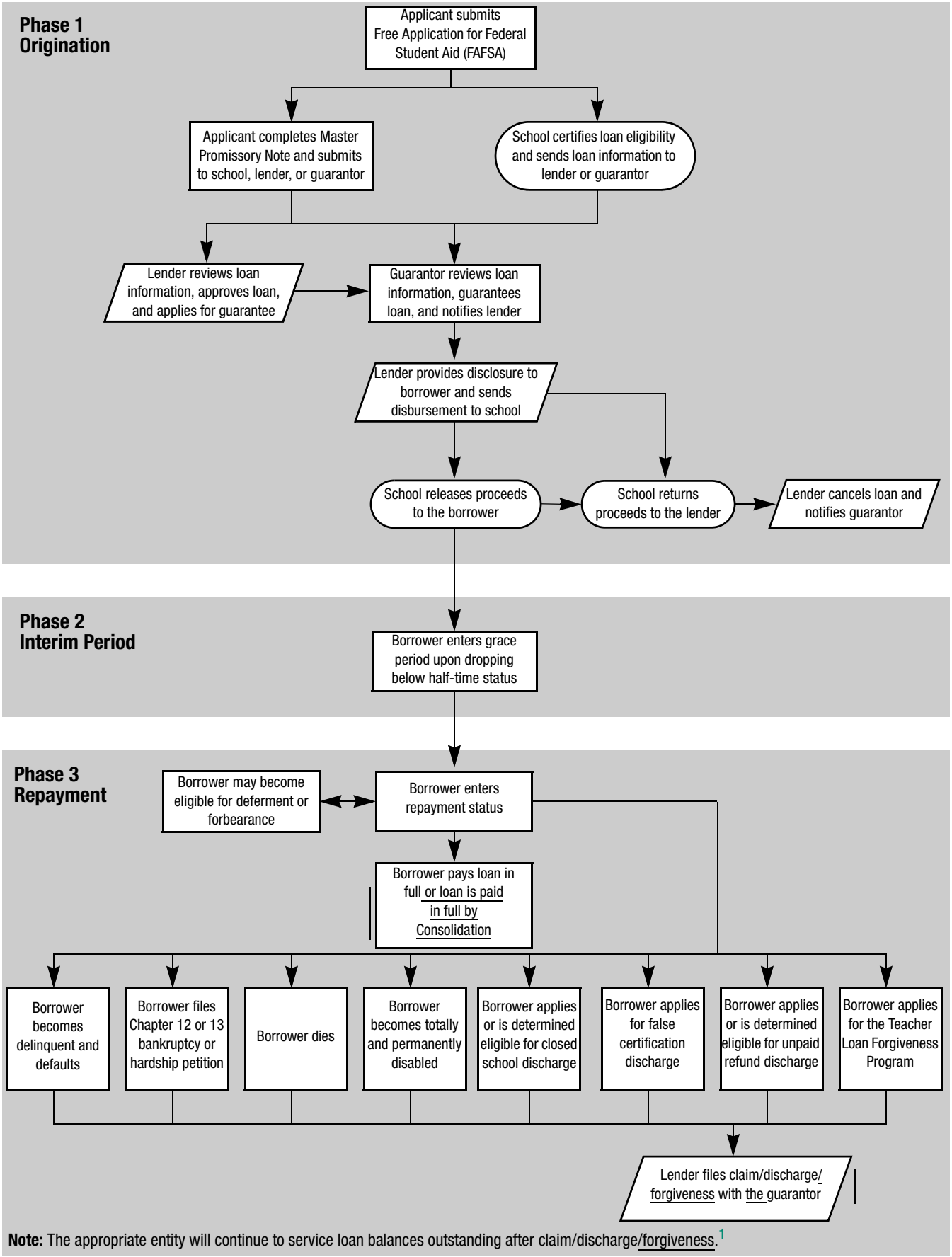
During these three phases, the school and lender each have responsibilities for ensuring that the loan is handled properly.

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

1. Policy 692 (Batch 105), approved August 21, 2003

## The Life of a Stafford Loan

**Figure 2-1**

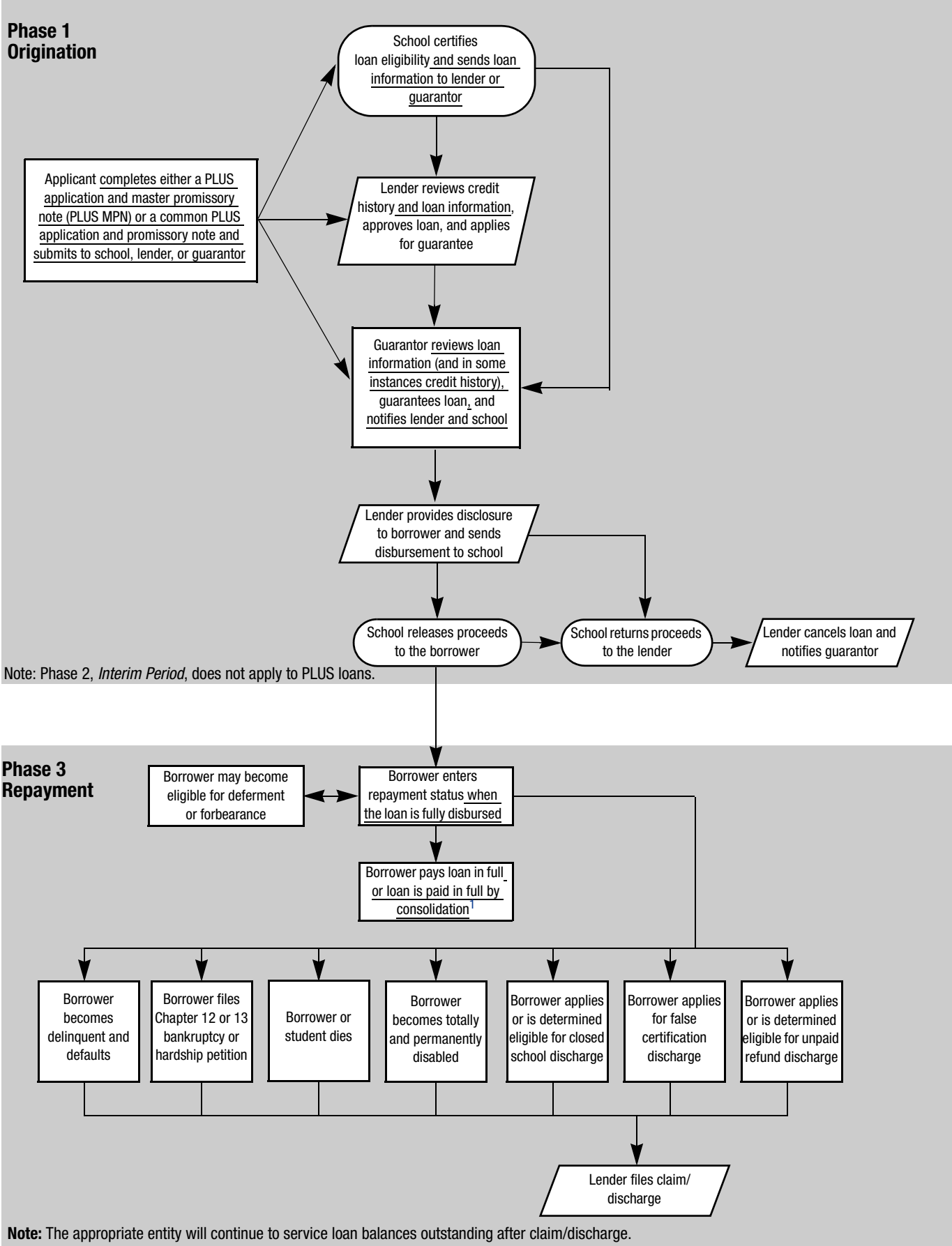



**Note:** The appropriate entity will continue to service loan balances outstanding after claim/discharge/forgiveness.[1]

1. Policy 692 (Batch 105), approved August 21, 2003

## The Life of a PLUS Loan

**Figure 2-2**




1. Policy 693 (Batch 105), approved August 21, 2003

## 2.2.A Origination

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

- The Stafford Master Promissory Note (Stafford MPN) is the student borrower's promise to repay the funds and provides important language about the student borrower's rights and responsibilities with respect to obtaining and repaying the loan. Because the Stafford MPN is only a promissory note, the borrower application and school certification processes are separate. To obtain a Stafford loan, the student must submit a completed Free Application for Federal Student Aid (FAFSA). All schools located in the United States, unless notified otherwise by the Department, may use the Stafford MPN as a multi-year note. Schools located outside of the United States, unless specifically authorized by the Department to offer the multi-year feature, must use a separate Stafford MPN for each academic year. [DCL GEN-02-10]

- The PLUS Application and Master Promissory Note (PLUS MPN) is a single form used concurrently as a parent borrower's application for the loan and the parent borrower's promise to repay the funds. A parent borrower must complete a separate PLUS MPN for each dependent student for whom he or she wishes to borrow. Before each PLUS loan is disbursed, the parent borrower must indicate to either the school or the lender the amount he or she wishes to borrow (the requested loan amount). The requested loan amount may be obtained by either the school or the lender depending on the process agreed to by the parties. The school certification and the process for obtaining the parent borrower's requested loan amount may be separate processes. All schools located in the United States, unless notified otherwise by the Department, may use the PLUS MPN as a multi-year note. [DCL GEN-03-03]

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

### Origination of Stafford Loans

A school must use the Stafford MPN for any Stafford loan it certifies. The Stafford MPN has a multi-year feature that permits a borrower to sign one promissory note for multiple Stafford loans. There are instances, however, when the borrower may have to complete a Stafford MPN for each new academic year (see section 6.16 for more information regarding when a new MPN is required and subsection 7.2.C for information regarding Stafford MPNs and students who transfer).

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

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

### School Certifies Loan Eligibility

For a Stafford loan, the school certifies:

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

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

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

For more information on eligibility requirements and the school's certification of loan applications, see chapters 5 and 6.

### Lender Reviews and Approves the Loan

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

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

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

For more information on how the lender reviews and approves the loan, see chapter 7.

### Guarantor Reviews and Guarantees the Loan

Upon receiving the loan information, the guarantor:

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

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

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

### Lender Disburses the Loan

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

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

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

For more information on disbursement, see chapter 7.

### School Delivers the Loan Proceeds to the Borrower

The school delivers the loan proceeds to the borrower promptly after verifying that the borrower remains eligible for the loan. The school credits the funds to the student's

account or delivers the funds to the borrower, as appropriate. At the borrower's written request, a school may also retain and deliver funds periodically to help the student manage his or her loan funds and attendance costs.

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

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

For more information on school delivery of loan proceeds, see chapter 8.

## 2.2.B The Interim Period

### In-School and Grace Periods

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

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

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

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

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

For more information on school and lender responsibilities during the interim period, see chapter 9.

### Student Leaves School

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

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

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

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

For more information on prepayments, see chapter 9.

### School's Responsibilities during the Interim Period

The school's responsibilities during the interim period include:

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

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

#### Lender's Responsibilities during the Interim Period

The lender's responsibilities during the interim period include:

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

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

For more information on the lender's responsibilities, see chapters 3, 7, and 9, and appendix A.

## 2.2.C Repayment

#### Borrower Enters Repayment

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

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

During the repayment period, the lender is responsible for:

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

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

For more information on how the lender converts loans to repayment and services loans during the repayment period, see chapter 9.

### Deferment and Forbearance

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

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

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

For more information on deferment and forbearance, see chapter 10. For information on interest subsidies, see appendix A.

### Borrower Pays the Loan in Full

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

For more information on how to handle loans that have been paid in full, see chapter 9.

### Borrower Does Not Pay the Loan in Full

If a loan is not paid in full by the borrower, or if the borrower is eligible to have his or her loan discharged or forgiven, generally the guarantor will reimburse the lender for its loss—provided the lender has complied with the requirements for making, servicing, and collecting the loan, as applicable. The lender requests a claim payment from the guarantor on the eligible amount of the loan ~~from the guarantor~~. Some forgiveness programs do not involve the guarantor, but rather involve direct reimbursement from the Department to the lender. In the case of a claim payment due to default ~~Following a default claim payment to the lender~~, the guarantor will continue attempting to collect the loan from the borrower. Permanently discharged and forgiven loans are not subject to further collection activities.[1]

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

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

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

For more information on the lender's responsibilities when the borrower is unwilling or unable to make payments, see chapters 11 and 12.

1. Policy 692 (Batch 105), approved August 21, 2003

## 2.3
## Other FFELP Resources

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

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

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

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

## 2.3.A
## Federal Statute, Regulations, and Dear Colleague Letters/Dear Partner Letters

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

### The Higher Education Act of 1965, as Amended

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

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

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

### Student Financial Aid Regulations

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

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

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

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

### Dear Colleague Letters (DCLs)/Dear Partner Letters (DPLs)

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

### Regulatory Waivers

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

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

The following Department publications are available upon request by calling (800) 4-FED-AID. Some of these publications are also available for download on the Internet. See each publication below for its applicable web site. Additional Department publications are available from the Information for Financial Aid Professionals (IFAP) web site at www.ifap.ed.gov.

*Federal Student Aid Handbook*

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

*Application and Verification Guide*

This publication is a component of the *Federal Student Aid Handbook* and is intended for financial aid administrators (FAAs) to help students begin the student aid process. It contains guidance on filing the Free Application for Federal Student Aid (FAFSA), verifying information, and making corrections and other changes to the information reported on the FAFSA.

*Trainee Guide: Delivery System Training Workshop*

This annual publication includes guidance to schools on delivering student financial aid. The Department typically hosts regional workshops to provide this information to schools. Workshop materials are available on the Department's web site at www.ed.gov/offices/OSFAP/sfau/tdocs.html.

*Cohort Default Rate Guide*

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

*Expected Family Contribution Formula Worksheets and Tables*

This publication is provided to inform schools of how the *expected family contribution* (EFC) is calculated for students and families when they apply for student financial aid. It is generally published annually. The current and archived versions of the *Expected Family Contribution Worksheets and Tables* are available for download from the IFAP web site at www.ifap.ed.gov.

*High School Counselor's Handbook*

This publication is intended to assist high school counselors in providing information to students and families about the student financial aid process. It is generally published annually. The current and archived versions of the *High School Counselor's Handbook* are available for download from the IFAP web site at www.ifap.ed.gov.

*Audit Guide (School)*

This publication is provided to assist schools in preparing for required audits of their student loan programs. The latest version of the publication is available for download from the Department's web site at www.ed.gov/offices/OIG/nonfed/sfa.htm.

*Audit Guide (Lender)*

This publication is updated periodically by the Department to assist lenders in preparing for required audits of their student loan programs. The latest version of the publication is available for download from the Department's web site at www.ed.gov/offices/OIG/nonfed/sfa.htm.

*Self-Instructional Workbook for the ED Form 799*

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

## 2.3.C
## Common Forms

The 1992 Reauthorization of Title IV of the Higher Education Act of 1965 (HEA) began requiring the U.S. Department of Education (the Department), in cooperation with industry participants, to develop common loan applications and promissory notes, deferment forms, and reporting formats.

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

NCHELP's Program Operations Forms subcommittee coordinates forms development, and various NCHELP task forces work to develop the forms, circulate them to the NCHELP membership for comment and, later, coordinate their submission to the Ad Hoc Standardization Committee.

The Ad Hoc Standardization Committee—with representation from students, schools, lenders, and other financial aid constituencies—broadens the industry view on the forms and processes recommended by NCHELP. After it reviews and approves the forms, the Ad Hoc Standardization Committee forwards the forms to the Department for their consideration and approval.

The Department reviews the forms, looking especially at regulatory and legal compliance, risk, and overall consistency with the goals of the Title IV programs. Based on this review, negotiations between the parties (the Department, the Ad Hoc Standardization Committee, and NCHELP) begin and continue until agreement is reached.

Once preliminary agreement is reached, the Department moves the forms into the final approval process, which takes approximately four months to complete. The Department posts the forms for public comment in the Federal Register on two separate occasions. The first comment period is for 60 days, and the second is for 30 days. After the Department and/or the OMB receive and review the comments and make any adjustments, the OMB assigns a control number and an expiration date to the forms, and the Department announces approval to the community in a Dear Partner Letter.

Approved common forms are reviewed at least every 3 years for updates and revisions. The revision process follows the same general flow as that used for new forms; however, the time frame for development is greatly reduced.

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

### Loan Origination Forms

- Federal Stafford Loan Master Promissory Note
- Federal Stafford Loan School Certification
- Federal PLUS Application and Master Promissory Note
- Federal PLUS Loan School Certification
- Endorser Addendum to Federal PLUS Application and Master Promissory Note
- Application and Promissory Note for Federal PLUS Loan
- Endorser Addendum to Federal PLUS Loan Application and Promissory Note
- Federal Consolidation Loan Application and Promissory Note
- Federal Consolidation Loan Verification Certificate
- Request to Add Loans to a Federal Consolidation Loan

### Return of Title IV Funds Worksheets

- Treatment of Title IV Funds When a Student Withdraws from a Credit Hour Program
- Post-Withdrawal Disbursement Tracking Sheet
- Treatment of Title IV Funds When a Student Withdraws from a Clock Hour Program
- Post-Withdrawal Disbursement Tracking Sheet

### Deferment Forms

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

### Claim Forms

- Default Aversion Assistance Request Form
- Claim Form
- Supplemental Claim Form

### Loan Discharge/Forgiveness Forms

- Loan Discharge Application: School Closure
- Loan Discharge Application: False Certification of Ability to Benefit
- Loan Discharge Application: False Certification (Disqualifying Status)
- Loan Discharge Application: Unauthorized Signature/ Unauthorized Payment
- Loan Discharge Application: Total and Permanent Disability
- Loan Discharge Application: Unpaid Refund
- Teacher Loan Forgiveness Application
- Teacher Loan Forgiveness Forbearance Form
- Child Care Provider Loan Forgiveness Application
- Child Care Provider Loan Forgiveness Forbearance Form

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# 3 Lender Participation


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Chapter 3 explains the eligibility requirements, restrictions, and responsibilities of lenders participating in the Federal Family Education Loan Program (FFELP). Additional information on lender participation in the Federal Consolidation Loan Program is contained in chapter 14.

## 3.1 Eligible Lenders

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

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

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

## 3.2
## Schools Acting as Lenders

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

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

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

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

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

- The school is not a correspondence school.

- The school has not had cohort default rates that exceed 15% for each of the two most recent fiscal years—unless it has received a waiver on this restriction from the Department.
  [HEA 435(d)(2), (3), and (4); §682.200(b); §682.601]

## 3.3
## Participation and Guarantees

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

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

### 3.3.A
### Approval for Participation

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

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

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

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

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

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

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

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

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

## 3.3.B Agreement to Guarantee Loans

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

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

### Blanket Certificate of Loan Guarantee Program

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

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

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

See subsection 14.1.B for information on the use of blanket guarantee for Federal Consolidation loans.

## 3.3.C Transfer of Loan Guarantee

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

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

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

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

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

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

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

## 3.4
## Lender Responsibilities and Standards

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

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

If a lender fails to comply with any of the preceding requirements, a guarantor may limit, suspend, or terminate the lender's eligibility to participate in the guarantor's programs (see chapter 17).

### General Responsibilities

A lender is required to respond to any inquiry from a borrower or endorser on a loan within 30 days of the date on which the lender receives the inquiry. If a borrower disputes the terms of a loan in writing, and the lender does not resolve the dispute, the lender must provide the borrower with information regarding an appropriate guarantor contact for the resolution of the dispute. [§682.208(c)(1) and (c)(3)(i)]

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

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

### Standards for Electronic Signatures

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

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

## 3.4.A
## Recordkeeping Requirements

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

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

**Required Records**

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

- Documentation of any Stafford Master Promissory Note (Stafford MPN) Confirmation or Notification process or processes.
- Documentation of the process under which either the school or lender obtains the parent borrower's requested loan amount for loans made under the PLUS Application and Master Promissory Note (PLUS MPN).

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

- A record of the parent borrower's requested loan amount for loans made under the PLUS MPN, if the lender is the party responsible for obtaining this information.
- A record of any adjustments that the lender receives to the parent borrower's requested loan amount.
- A copy of the loan application, if a separate application was provided to the lender.
- A copy of the signed promissory note. The original or a true and exact copy of the promissory note must be retained until the loan is paid in full or assigned to the Department. If the promissory note was signed electronically, the lender must store the promissory note electronically in a retrievable, coherent format. More information on promissory note retention is found under the subheading "Record Retention Time Frames" in this subsection.
- The guarantee disclosure for each loan, with a record of any changes to the disclosure.
- Evidence of disbursement.
- Documentation of the lender's handling of any refunds issued by the student's school.
- Documentation supporting any Social Security number change.
- Documentation of the date on which the student was no longer enrolled at least half time and the schools the student attended.
- Notice of address changes for the borrower or references.
- Documentation of all repayment terms established with the borrower, including the repayment start date of the loan and the amount and number of installments.
- A record of all payments received, including the dates, amounts, and way in which each payment was applied to the principal, interest, and other outstanding balances on the loan.
- Evidence of any deferment eligibility, including the beginning and ending dates for each deferment.
- Documentation of any forbearance granted, including the beginning and ending dates for each forbearance.
- Documentation of all due diligence efforts.
- A record of each communication on the loan—other than regular reports by the lender showing that an account is current—between the lender and a credit bureau.
- Documentation of any assignments, sales, or purchases on the loan—including evidence that a notice of loan assignment was sent to the borrower, if applicable.
- Audit trails sufficient to support the lender's payment of origination fees and billings of interest benefits and special allowance to the Department.
- Any additional records necessary to document the validity of a claim against the guarantee (see subsection 12.1.D).
[§668.24(d)(3)(i) through (iv); §682.414(a)(4) through (5); DCL GEN-03-03]

### Record Retention Time Frames

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

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

A lender that sells a loan to another lender remains subject to the 5-year minimum retention requirement for all documentation generated through the date it sells the loan. A lender that purchases a loan from another lender is subject to the 5-year minimum retention requirement for all documentation generated from the time of the loan's origination through the date the purchasing lender no longer holds the loan.
[§682.414(a)(4)(iii)]

When a loan is paid in full by the borrower, the lender must either return the original or a true and exact copy of the promissory note to the borrower, or notify the borrower that the loan is paid in full. A copy of the promissory note must be retained for a period of not less than 3 years after the date the loan is paid in full by the borrower, or not less than 5 years after the date the lender receives payment in full from any other source. Documentation of any paid-in-full notice sent to the borrower also must be retained for a period of not less than 3 years after the date the loan is paid in full by the borrower.
[§682.414(a)(5)(ii)]

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

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

### Loan Assignment and Sale

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

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

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

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

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

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

### Loan Transfer

In some cases—such as a servicer transfer or branch transfer—a FFELP loan that is in grace or in repayment is not assigned or sold, but there is a change in the identity of the party to whom the borrower must send subsequent

payments or communications. If this occurs, the loan holder must notify the borrower that the loan has been transferred and must provide the following information:

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

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

#### Documentation Requirements

Although guarantors do not require that a copy of the notice of loan sale or transfer be included in a claim file, the lender must be able to provide evidence that the notice was provided to the borrower. For this reason, the lender must retain a record of the notice for at least 3 years after the date the loan is paid in full by the borrower or 5 years after the date the lender receives payment in full from any other source. This record may be stored on microform, optical disk, or other machine-readable format, and must be available for program compliance reviews. [§682.414(a)(4) and (5)]

## 3.4.C Prohibited Activities

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

- Receiving points, premiums, payments, additional interest, or any other form of compensation from another entity to obtain funds with which to make loans or to induce the lender to make loans either to a student or a parent borrower from a particular school or to any particular category of student or parent. Examples of such prohibited incentive payments include:
  - Cash payments made to a lender by or on behalf of a school.
  - The maintenance of a compensating balance with a lender by or on behalf of a school.
  - Payments to a lender by or on behalf of a school for servicing costs on loans that the school does not own.
  - Payments to a lender by or on behalf of a school for unreasonably high servicing costs on loans owned by the school.
  - Purchase of a lender's stock by or on behalf of a school.
  - Payments ostensibly made for other purposes.
- Refusing to make, purchase, consolidate, or refinance a loan because of the borrower's race, national origin, religion, sex, marital status, age, or disability.
- Offering—directly or indirectly—points, premiums, payments, or other inducements to any school or other party to secure applicants for loans, except that a lender is not prohibited from providing assistance to schools comparable to the kinds of assistance provided by the Department to schools under, or in furtherance of, the FDLP.
- Conducting unsolicited mailings of student loan application forms to potential borrowers who had not previously borrowed student loans from that lender.
- Offering loans—directly or indirectly—as an inducement to a prospective borrower to purchase an insurance policy or other product.
- Engaging in fraudulent or misleading advertising with respect to its FFELP activities.
- Discounting the sale or transfer of notes, or any interest in notes, if the underlying FFELP loans were made by a school or lender having common ownership with a school—except when purchased by the Student Loan Marketing Association, a state agency functioning as a secondary market, or in other circumstances approved by the Department.
- Using a FFELP loan as collateral for any loan bearing aggregate interest and other charges in excess of the sum of the applicable interest rate and the current special allowance rate—except to secure a loan from the Student Loan Marketing Association, a state agency functioning as a secondary market, or in other circumstances approved by the Department.

These prohibitions do not preclude a lender—when buying loans that were originally made by a school—from obtaining a warranty from the seller to cover future

reductions by the Department or a guarantor in computing the amount of loss payable on default claims caused by a seller's or previous holder's act or failure to act.

If warranted, the Department or a guarantor will notify a lender that an action is pending to terminate its eligibility to participate in the FFELP. The lender will be given an opportunity to appeal such an action. For more information on termination actions, see chapter 17.

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

## 3.4.D Borrower Defenses

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

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

## 3.4.E Charges to Borrowers

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

- Guarantee and origination fees.
- Interest (not to exceed the applicable statutory rate).
- Capitalized interest.
- Late charges.
- Reasonable collection costs, such as court costs and attorney fees incurred by the lender or its servicer in collecting a delinquent loan.

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

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

### Nonpermissible Charges

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

- Additional fees for making a loan, such as lender application fees or the cost of credit checks performed on a borrower (federally authorized guarantee and origination fees are permissible).
- Normal collection costs, such as costs associated with the preparation and mailing of notices or letters or the making of telephone calls.
[§682.202]

## 3.5 Lender Reporting

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

## 3.5.A Federal Origination Fee and Lender Fees: Payment and Reporting

Lenders are required to pay two fees to the Department, a federal origination fee and a lender fee.

The origination fee, not to exceed 3%, may be charged to Stafford borrowers, but *must* be charged to PLUS loan borrowers (see subsection 7.9.A). Regardless of whether the lender passes the fee on to the borrower, the lender must pay the origination fee to the Department for each loan it makes. This origination fee payment is generally the responsibility of the originating lender. Before purchasing a loan, a lender should obtain confirmation that origination fees have been paid.

In addition, lenders are charged a lender fee equal to 0.5% of the principal amount of each FFELP loan made. This fee cannot be charged to the borrower.

The lender reports the amount of origination and lender fees due each quarter on the Lender's Interest and Special Allowance Request and Report (ED Form 799). The reporting of both fee categories results in an offset to the amount of quarterly interest benefits and special allowance payments to which the lender would otherwise be eligible. If fees are owed, the lender must submit the ED Form 799 to the Department even if the lender is not owed or does not wish to receive interest benefits or special allowance payments. For information on ED Form 799, see appendix A.
[§682.305(a)(1); DCL 93-L-161/DCL 93-G-246/DCL 93-S-71]

#### Deactivation for Failure to Pay Origination Fees

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

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

To have its LID reactivated, a deactivated lender must submit payment for all outstanding federal origination fees to the Department, along with a letter certifying that all origination fees have been paid. After reactivation, the lender may not retroactively bill for interest benefits and special allowance payments for the period of deactivation. [DCL 94-L-170/DCL 94-G-262]

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

## 3.5.B Interest Benefits and Special Allowance Reporting

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

## 3.5.C Credit Bureau Reporting

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

- The total amount of loans made to the borrower (to be reported within 90 days of each disbursement).
- The outstanding balance of the borrower's FFELP loans held by the lender.
- The repayment status of delinquent loans. The minimum frequency a lender must report status changes to at least one national credit bureau is quarterly. To avoid unnecessarily confusing the borrower and damaging the borrower's credit history, a lender is strongly encouraged to wait until a borrower is at least 60 days delinquent before reporting the delinquency to a credit bureau.
- The date the loan is paid in full by or on behalf of the borrower (to be reported within 90 days of the date the loan is paid in full).
- The date the loan is discharged due to the borrower's death, disability, or bankruptcy (to be reported within 90 days of the date the loan is discharged).
- The date the loan is discharged due to a closed school or false certification (to be reported within 30 days of the date the lender is notified that the loan is discharged). The lender also must request that the credit bureau remove any negative information regarding a loan discharged due to a closed school or false certification. For more information on closed school and false certification claims, see subsections 12.8.B and 12.8.D.

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

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

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

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

## 3.5.D Reporting Loan Status Changes

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

▲ Lenders may contact individual guarantors for more information on reporting loan status changes. See section 1.6 for contact information.

For information on lender reporting ~~student~~ of enrollment changes, see subsection 9.1.B.[1]

Some guarantors do not require reporting of enrollment status changes. These requirements are noted in appendix C.

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

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

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

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

▲ Lenders may contact individual guarantors for more information on alternative reporting options. See section 1.6 for contact information.

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

1. Policy 703 (Batch 106), approved September 18, 2003

## 3.5.F
## Social Security Number Change Reporting

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

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

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

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

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

## 3.5.G
## NSLDS Reporting

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

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

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

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

## 3.5.H
## Reporting Loans Paid in Full

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

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

# 3.6 Third-Party Servicers

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

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

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

### Lender Requirements

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

- The lender may not enter into a contract with a third-party servicer that the Department has determined does not meet the administrative capability and financial responsibility requirements for third-party servicers.
- The lender must provide the Department with the name and address of each third-party servicer with which the lender enters into a contract. The lender must provide a copy of its contract with the third-party servicer, if the Department requests it.

### Servicer Requirements

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

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

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

## 3.6.A Administrative Capability

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

- The servicer provides the services and administrative resources necessary to fulfill its contract with a lender and conducts all of its contractual obligations applicable to the FFELP in accordance with program regulations.
- The servicer has business systems (automated and/or manual) that are capable of meeting the requirements of the Act and federal regulations, with respect to the FFELP.
- The servicer has adequate personnel, who are knowledgeable about the FFELP.
  [§682.416(a)]

## 3.6.B
## Financial Responsibility

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

- The servicer provides the services described in its official publications and statements.
- The servicer provides the administrative resources necessary to comply with the program requirements.
- The servicer meets all of its financial obligations, including refunds it is required to make (if applicable) and payments owed to the Department for program liabilities and debts.
- The servicer is current on its debt payments. A servicer is not considered current if it is in violation of any loan agreement at the end of its fiscal year, as disclosed in a note to its audited financial statements. A servicer is not current if it fails to make a payment in accordance with existing debt obligations for more than 120 days, and at least one creditor has filed suit to recover those funds.
  [§668.15(b)(1) through (4)]

### For-Profit Servicers

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

- The servicer had an acid test ratio of at least 1:1 at the end of its latest fiscal year. This ratio is determined by ~~dividing~~ adding the servicer's cash, cash equivalents, and current accounts receivable—excluding any unsecured or uncollateralized related party receivables—and dividing the total by the sum of total current liabilities.
- The servicer has not had operating losses in either or both of its two most recent fiscal years that, in sum, result in a decrease in tangible net worth in excess of 10% of the servicer's net worth at the beginning of the first year of the two-year period.
- The servicer had a positive net worth for its latest fiscal year.
- The servicer can demonstrate to the Department's satisfaction that it has debt obligations (without insurance, guarantee, or credit enhancements) that are currently issued and outstanding ~~debt obligations (without credit enhancements)~~ and that are listed at or above the second highest ~~credit~~ rating level of credit quality given by a nationally recognized statistical rating organization.[1]
  [§668.15(b)(7)]

### Nonprofit Servicers

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

- The servicer prepares a classified financial statement in accordance with generally accepted accounting principles or provides the required information in notes to financial statements.
- The servicer had an acid test ratio of at least 1:1 at the end of its latest fiscal year. This ratio is determined by dividing the servicer's cash, cash equivalents, and current accounts receivable—excluding any unsecured or uncollateralized related party receivables—by the sum of total current liabilities.
- The servicer had, at the end of its latest fiscal year, either a positive unrestricted fund balance or positive unrestricted net assets—or the servicer has not had an excess of current fund expenditures over current fund revenues over both of its two latest fiscal years that results in a decrease exceeding 10% of either the unrestricted current fund balance or the unrestricted net assets at the beginning of the first year of the two-year period.
- The servicer can demonstrate to the Department's satisfaction that it has currently issued and outstanding debt obligations (without credit enhancements) at or above the second highest credit rating level.
  [§668.15(b)(8)]

1. Policy 694 (Batch 105), approved August 21, 2003

### Public Servicers

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

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

### Criteria For Determining That A Servicer Is Not Financially Responsible

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

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

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

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

## 3.7
## Lender of Last Resort

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

### 3.7.A
### Eligible Lenders

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

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

If the Department determines that an eligible borrower is unable to obtain a subsidized or unsubsidized Stafford loan through the LLR program for the state, the Student Loan Marketing Association (Sallie Mae) may be authorized to make an LLR loan for the borrower.
[HEA 439(q); §682.401(c)(1)]

### 3.7.B
### Benefits of Participation

A lender that makes LLR loans receives the following benefits:

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

### 3.7.C
### How the LLR Program Works

A student may request assistance under the LLR program if the student is eligible to participate in the FFELP and meets all of the following conditions:

- The student qualifies for interest benefits.
- The student is eligible for a combined subsidized and unsubsidized Stafford loan amount of at least $200.
- The student is otherwise unable to obtain loans from another eligible lender for the same period of enrollment or is attending a school that has been designated an LLR school.

A student who meets these conditions is entitled to receive Stafford loans under the LLR program. In addition, an LLR may offer unsubsidized Stafford loans and PLUS loans through LLR programs to eligible borrowers who have been otherwise unable to obtain those loans from another eligible lender. An eligible student who requests assistance under the LLR program may be referred to the designated guarantor in the student's state of residence or to the designated guarantor in the state where the student is attending school.

Within 60 days of receiving a complete request from the borrower for an LLR loan, the guarantor must respond to the borrower with an approval or denial. If the LLR loan is approved, the guarantor will either serve as the lender or designate an eligible lender to make the LLR loan. A lender under the LLR program may refuse to make a loan if the borrower fails to meet the lender's credit standards.
[§682.401(c); *Federal Student Aid Handbook*, Direct Loan and FFEL Programs Reference]

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

#### For More Information

▲ A lender may contact individual guarantors for more information on specific LLR operating procedures. See section 1.6 for contact information.

## 3.8
## Independent Audits

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

## 3.8.A
## Annual Compliance Audits

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

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

A lender is required to submit the compliance audit report to the Department if, during the fiscal year being audited, it made or held more than $5 million in FFELP loans. Generally, a lender is exempt from the annual audit requirement for any fiscal year subject to audit in which the lender made or held $5 million or less in FFELP loans.
[§682.305(c)(1)]

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

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

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

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

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

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

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

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

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

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

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

## 3.8.B Third-Party Servicer Audits

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

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

An audit must be completed annually and submitted no later than 6 months after the end of the servicer's fiscal year.

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

# 3.9 Exceptional Performer Designation

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

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

An exceptional performer designation is based only on the loans that the exceptional performer services directly. If a lender contracts with a servicer to fulfill a portion of its responsibilities under the FFELP, the lender may not obtain a designation based on functions performed by its servicer. A designation applies to all loans serviced by the exceptional performer—with the exception of defaulted loans that have not been serviced by the exceptional performer for the last 270 days before default.

## 3.9.A Applying for the Designation

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

- A written request with the applicant's name and address; the name of a contact person; the lender identification number (LID), if applicable; and the name and address of each applicable guarantor.
- A copy of an annual financial audit conducted in accordance with the Audit Guide developed by the Department. A lender may submit a copy of an annual audit required under 34 CFR 682.305(c) if the audit period ends no more than 90 days before the date the lender submits its request for designation. A servicer may submit a copy of the annual financial audit, as defined in 34 CFR 682.416(e), if the audit period ends no more than 90 days before the date the servicer submits its request for designation.

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

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

## 3.9.B Department Determination of Request for Designation

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

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

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

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

# 4 School Participation


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

In addition to meeting the terms and conditions of its Program Participation Agreement (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.
- Proprietary institutions of higher education (private and for-profit).
- Public or private nonprofit postsecondary vocational institutions.

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.
[§600.4; §600.5; §600.6; §600.8]

### 4.1.A Establishing Eligibility

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

- The school must submit an application to the Department to request a determination that it qualifies as an eligible institution.
- The school must include in the application for determination a request for certification to participate in the program and must submit all the documentation indicated on that application. To be certified for participation, a school must meet the following standards:
  - The school must meet the qualifications of an eligible institution (see section 4.1).
  - The school must meet administrative capability and financial responsibility requirements (see sections 4.2 and 4.3).
  - If the school is participating for the first time in Title IV programs, and it has not requested and been granted a training waiver, designated school administrators defined by the Department must complete Title IV training within 12 months after the school executes the Program Participation Agreement (PPA). A school that is currently participating in some Title IV programs is not required to have certification training if it is only requesting approval to participate in additional Title IV programs.
    [§600.20(a); §668.13(a)(2)]

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

- The school will not charge a student a fee for processing or handling any application, form, or data required to determine the student's eligibility for assistance, including the amount of the Title IV assistance.

- The school will inform eligible Stafford and PLUS loan borrowers of the availability of state grant assistance from the state in which the school is located, and will inform out-of-state borrowers of the source of information for assistance in the student's home state.

- The school will not certify a loan that exceeds the borrower's eligibility.

- The school will submit all required reports within the time frames specified.

- If the school advertises job placement rates as a means of attracting students to enroll, the school will make available to all prospective students—at or before the time of application for admission—the most recent data concerning employment statistics, graduation statistics, and any other information necessary to substantiate these advertisements.

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

- A school located in a state not covered by section 4(b) of the National Voter Registration Act (commonly known as the Motor Voter Registration Act) is required to make a good faith effort to distribute a mail voter registration form to each enrolled student physically in attendance at the school and to make the forms widely available. The school must request the voter registration forms from its state 120 days prior to the voter registration deadline. Schools are not held liable for compliance with this requirement if the state does not provide a sufficient quantity of forms within 60 days prior to the voter registration deadline. This requirement includes elections for a state's governor or other chief executive, or for federal office elections. [§668.14(d)]

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

- A FFELP-participating school undergoing a change of ownership that results in a change in control may be required to use a default management plan approved by the Department for at least the first two years following the change (see subsection 4.1.C for more information).

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

- The school will not provide any commission, bonus, or other incentive payment to a person or entity engaged in student recruitment or admission activities or in making decisions regarding the awarding of Title IV aid, based directly or indirectly upon the success of securing enrollments or financial aid. This prohibition does not apply to the recruitment of foreign students residing in foreign countries who are not eligible to receive Title IV aid. (See subheading "Permissible Incentive Compensation" later in this subsection for a list of permissible activities that do not violate this provision).
[§668.14]

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

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

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

▲ Schools may contact individual guarantors for more information on specific eligibility procedures and required supporting documentation. See section 1.6 for contact information.

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

**Permissible Incentive Compensation**

The following are examples of compensation incentives that a school may offer that have been approved by the Department (a school is not limited to offering only these compensation plans, however):

- Fixed compensation (annual salary or hourly wage), as long as it is not adjusted more than twice during any 12-month period (with the exception of a cost of living increase that is paid to substantially all full-time employees) and any adjustment is not based solely on the number of students recruited, admitted, enrolled, or awarded financial aid.

- Compensation to recruiters based on the recruitment of students who enroll only in non-Title IV programs.

- Compensation to recruiters who arrange contracts between the school and an employer whose employees enroll at the school and for whom the employer pays (directly or by reimbursement) 50% or more of the tuition and fees charged to its employees. This compensation cannot, however, be based on the number of employees who enroll at the school, or the revenue they generate. The recruiters also may not have contact with the employees.

- Compensation paid as part of a profit-sharing or bonus plan that is substantially the same amount or the same percentage of salary or wages, and is made to all or substantially all of the school's full-time professional and administrative staff. Such payments may be limited to all or substantially all of the full-time employees at one or more organizational levels at the school. The organizational level, however, may not consist predominantly of recruiters, admissions staff, or financial aid staff.

- Compensation based on students who successfully complete their educational programs or one academic year of their educational program, whichever is shorter. For this purpose, successful completion of an academic year means the student has earned at least 24 semester or trimester credit hours or 36 quarter credit hours, or has successfully completed at least 900 clock hours of instruction at the school.

- Compensation paid to employees who perform clerical "pre-enrollment" duties, such as answering telephone calls, referring inquiries, or distributing school materials.

- Compensation to managerial or supervisory employees who do not directly manage or supervise employees who are directly involved in recruiting or admissions activities, or the awarding of Title IV program funds.

- Token gifts awarded to the school's students or alumni, provided the gifts are not in the form of money. No more than one gift may be provided annually to an individual, and the cost of the gift can be no more than $100.

- Profit distributions based proportionately on an individual's ownership interest in the school.

- Compensation paid for Internet-based recruitment and admission activities that provide information about the school to prospective students, refer prospective students to the school, or permit prospective students to apply for admission on-line.

- Payments to third parties, including tuition sharing arrangements, that deliver various services to the school, provided that none of the services involve recruiting or admission activities or the awarding of Title IV program funds.

- Payments to third parties, including tuition sharing arrangements, that deliver various services to the school, even if one of the services involves recruiting or admission activities or the awarding of Title IV program funds, provided that the individual does not receive a commission, bonus, or other incentive payment based directly or indirectly upon the success of securing enrollments or financial aid. [§668.14(b)(22)(ii)]

## 4.1.B
## Written Agreements between Schools

A written agreement may be made between two or more eligible schools, or between eligible and ineligible schools, in which one school agrees to have a portion or all of its educational program provided at or by the other school(s). In addition, a school may enter into a single written agreement with a study-abroad organization that represents one or more foreign schools rather than a separate agreement with each individual foreign school that its students attend.
[§668.5]

A student may take courses at a school that is party to the contract and have those courses count toward the degree or certificate that is granted by the home school. The agreement applies to any courses for which a student has been certified as eligible for Title IV assistance.

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

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

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

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

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

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

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

The content of a written agreement may vary widely, depending on the interests of the schools involved and the accrediting agency or state agency standards. Certain information should be included in all agreements: which school will consider the student enrolled; how much the student's tuition, fees, and room and board will cost at each school; what the student's enrollment status will be at each school; and how reporting the student's enrollment status will be handled. Procedures for calculating financial aid awards, disbursing aid, keeping records, processing refunds, and completing the calculations for the return of Title IV funds also should be included in the agreement. The school that the student pays is responsible for issuing refunds and returning Title IV funds to the appropriate Title IV loan and grant programs. Additional information on written agreements between schools can be found in 34 CFR 668.5(d) and in the *Federal Student Aid Handbook*, Institutional Eligibility Reference.

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 17).

### Reporting Requirements

A school must report to the Department, in a manner specified by the Department, and report in writing to each applicable guarantor no later than 10 days after any of the following occurs:

- The school undergoes a change in the person(s) exercising substantial control or the person designated as its Title IV, HEA program administrator.
- The school changes its name or address, or the name or address of another location of the school where it offers at least 50% of an educational program.
- The school 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.)
- The school decreases its level of program offerings (e.g., drops graduate programs).
- The school changes the way it measures program length (such as changing from clock hours to credit hours).
- A public school undergoes a change in governance. (See subheading "Change in Governance for a Public School" later in this subsection.)
  [§600.21(a)]

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

A school's failure to inform the Department and each applicable guarantor of any of the preceding changes may result in adverse action against the school, including loss of eligibility.
[§600.21]

### 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, HEA training within 12 months after the school executes the Program Participation Agreement (PPA).
[§668.13(a)]

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

To continue eligibility to participate in Title IV programs, a school experiencing such a change in ownership or status must submit an application that is received by the Department no later than 10 business days after the change. The application must contain the following documentation:

- Any required and fully completed Department forms.
- Required documentation of state licensing approval.
- Required documentation of accrediting agency approval.
- Audited financial statements of the school's two most recently completed fiscal years.
- 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)]

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.
- The date on which the school is notified by the Department that its application is denied.
- 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)(1), (2), and (3)]

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.
- Documentation of state licensing approval, if not already provided.
- Documentation of accrediting agency approval, stating that accreditation is continued under the change, if not already provided.
- A default management plan, unless the school is exempt from providing the plan.

In addition to reestablishing or continuing eligibility with the Department, the school will also be required to reestablish eligibility with each applicable guarantor. [§600.20(h)(2) and (3); §600.31; §668.14(b)(15)]

### 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 the new program, which must meet all eligibility requirements. Before adding a new program of study, the school should contact the Department for guidance.

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

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

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

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

### Eligible Programs

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

A public or private nonprofit institution of higher education must meet the eligibility requirements noted in the introduction to chapter 4, must be a nonprofit school, must meet academic-year requirements (see section 6.1), and must offer one or more of the following:

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

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

- A program that provides at least 600 clock hours, 16 semester or trimester hours, or 24 quarter hours of undergraduate instruction offered during a minimum of 15 weeks, beginning on the first day of classes and ending on the last day of classes or examinations. The program may admit as regular students persons who have not completed an associate degree or the equivalent.
- A program that provides at least 300 clock hours, 8 semester or trimester hours, or 12 quarter hours of instruction offered during a minimum of 10 weeks, beginning on the first day of classes and ending on the last day of classes or examinations. The program must be a graduate or professional program or must admit as regular students only persons who have completed an associate degree or the equivalent.
- A "short-term" program that provides at least 300 but less than 600 clock hours of instruction during a minimum of 10 weeks, beginning on the first day of classes and ending on the last day of classes or examinations. The program must admit as regular students some persons who have not completed an associate degree or the equivalent. These programs are eligible only for FFELP purposes. The institution must have a substantiated completion rate and a placement rate of at least 70%. The number of clock hours provided in the program must not exceed by more than 50% the minimum number of clock hours required for training in the recognized occupation for which the program prepares students, as established by the state in which the program is offered, if the state has such a requirement, or as established by any federal agency. (See *Federal Student Aid Handbook*, Institutional Eligibility Reference and 34 CFR 668.8(c) through (g) for more information on completion rate and placement rate calculations.)

Programs that qualify at an otherwise eligible proprietary institution or a postsecondary vocational institution are required to have a minimum number of weeks of instruction (see section 6.2 for determining the period of enrollment). A "week of instruction" is any period of 7 consecutive days in which the school provides for at least one day of regularly scheduled instruction, examinations, or preparation for final examinations. Any time frame allotted to preparation for final examinations must occur after the last scheduled day of classes for the term or payment period. Instructional time does not include periods of orientation, counseling, vacation, or homework. [§668.3(b); §668.8(b)(2) and (3)]

### Eligibility of Credit-Hour Programs

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

- The program is at least 2 academic years in length and provides an associate, bachelor's, or professional degree or the equivalent, as determined by the Department. (Note: This exception does not permit a school to ask for a determination that a nondegree program is equivalent to a degree program).
- Each course within the program is acceptable for full credit toward that school's associate, bachelor's, or professional degree, or a degree that the Department has determined to be equivalent at the school, and the degree requires at least 2 academic years of study.

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

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

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

*For programs measured in semesters or trimesters*

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

*For programs measured in quarters*

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

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

A program that fails to include the minimum number of equivalent semester, trimester, or quarter credit hours of instruction does not qualify as an eligible program regardless of whether the Department previously designated that program as an eligible program. A school may not deliver the proceeds of any loan to a student enrolled in such a program regardless of when that program began. The school must return to the lender any loan funds delivered to or on behalf of students enrolled in a program that does not qualify as an eligible program. [§600.10(c); §668.8; §668.9; DCL GEN-95-38; *Federal Student Aid Handbook*, Institutional Eligibility Reference]

### 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 and other required documentation. Further information on these requirements can be found in 34 CFR 600.20 and in the *Federal Student Aid Handbook*, Institutional Eligibility Reference. Generally, after reporting to the Department, a school may immediately deliver Title IV funds to eligible students attending the added location. However, a school must have approval from the Department before it can deliver Title IV funds to eligible students attending the added location if any of the following criteria applies:

- The school is provisionally certified.
- The school is on the reimbursement or cash monitoring system of payment.
- The school has acquired the assets of another school that provided educational programs at that location during the preceding year, and the other school participated in Title IV programs during that year.
- The school would be subject to a loss of eligibility due to its cohort default rate if it adds the location.
- The school has been notified by the Department that it must apply for approval of an additional location. [§600.20; §600.21; §600.32]

### 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.
- The school's eligibility expires.
- The school's provisional eligibility is revoked.
- The school, one or more of its owners, or its chief executive officer has pled *nolo contendere* to, or is found guilty of, a crime involving the acquisition, use, or expenditure of Title IV funds—or has been judicially determined to have committed fraud involving Title IV funds.
- The school loses its licensure or accreditation.
- The school undergoes a change of ownership resulting in a change of control.
- The school stops providing educational programs for a reason other than a normal vacation period or natural disaster that directly affects the school or its students.
- The school or a controlling affiliate of the school files for bankruptcy or is forced into bankruptcy by its creditors.
- The school's accreditation is no longer recognized by the Department because the school does not agree to submit any dispute involving the final denial, withdrawal, or termination of its accreditation or preaccreditation to initial arbitration before initiating any other legal action.

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

- More than 50% of the courses offered by the school were offered as correspondence courses—unless the school is exempt under the Carl D. Perkins Vocational and Applied Technology Education Act.
- The percentage of the school's regular enrolled students who were enrolled in correspondence courses is 50% or more. A regular student is one who is enrolled or accepted for enrollment at the school for the purpose of obtaining a degree, certificate, or other recognized educational credential offered by the school. A school is exempt from this rule if it offers a two-year or four-year degree program and the students enrolled in the correspondence courses receive no more than 5% of the total of Title IV funds received by all students at the school. The school also is exempt if it is eligible under the Carl D. Perkins Vocational and Applied Technology Education Act.
- The percentage of the school's regularly enrolled students who are incarcerated is more than 25%. The Department may waive this rule if the school is a nonprofit institution that provides 2-year or 4-year educational programs for which it awards an associate or bachelor's degree, or a postsecondary diploma. [§600.7(a) and (c)]
- The percentage of the school's regularly enrolled students who had neither a high school diploma nor the recognized equivalent of a high school diploma is more than 50%, and the school does not provide a 2-year or 4-year degree program. A nonprofit school may be exempt from this rule if it demonstrates to the Department that it exceeds the 50% threshold because it serves, through government contracts, significant numbers of such students. No more than 40% of the school's total enrollment may consist of students who lack a high school diploma, or its equivalent, and who are not served through the government contracts. [§600.7(a) and (d)]

### 90/10 Rule for Proprietary Schools

Federal regulations stipulate that proprietary schools must receive no more than 90% of their revenues from Title IV funds. If a school fails to meet this requirement, it is ineligible to participate in all Title IV student assistance programs. This requirement is known as the 90/10 rule. The formula for determining the revenue percentages is found in 34 CFR 600.5(d).

The determination of whether a proprietary school meets this requirement is based on the school's most recently completed fiscal year. A school that fails to satisfy the 90/10 rule during its most recently completed fiscal year loses its eligibility on the last day of that fiscal year.

A school has 90 days after the end of its most recently completed fiscal year to report to the Department and each applicable guarantor that it did not satisfy the 90/10 rule for that period.

If a school determines that it did satisfy the 90/10 rule during its most recently completed fiscal year, it must have the independent certified public accountant who prepares its audited financial statement report on the accuracy of the school's calculation—based on performing an agreed-upon procedure attestation engagement. The report must be included as part of the audited financial statement. [§600.5(a)(8); §600.5(d)–(g); §600.40(a)(2); §668.15]

### Close-Out Procedures

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

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

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

## 4.2 Administrative Capability Standards

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

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

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

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

## 4.2.A
## Financial Aid Administrator Responsibilities

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

- Ensuring that the Federal Stafford and PLUS Loan Programs at the school are administered according to federal regulations and guarantor policies.
- Ensuring that each borrower receives adequate financial aid and debt management counseling.
- Ensuring that each student's need-based financial aid does not exceed the student's need.
- Ensuring that each student's financial aid package does not exceed the student's cost of attendance. [§682.603(d)(2)]

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

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

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

## 4.2.B
## Financial Aid Administrator Training

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

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

- A training conference provided by the Department or a guarantor.
- The school's state, regional, or national associations of financial aid professionals.
- The appropriate U.S. Department of Education regional office (see appendix D for contact information).

- Guarantor newsletters.
- Guarantor customer assistance units (see section 1.6 for contact information).
- The financial aid publications listed in section 2.3 of this manual.

## 4.2.C Withdrawal Rates

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

- The school must maintain withdrawal statistics on students in a manner consistent with federal regulations.
- The school must develop and document procedures to control or reduce the withdrawal rate. Such procedures may be evaluated in a program review. [§668.16(l)]

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

## 4.3 Financial Responsibility Standards

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

- The school must provide all services described in its official publications and statements.
- The school must properly administer the Title IV programs in which it participates.
- The school must meet all of its financial obligations. [§668.171(a)]

## 4.3.A General School Financial Responsibility Requirements

### Financial Statements and Audit Requirements

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

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

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

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

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

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

#### Past Performance Requirements

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

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

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

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

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

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

#### Administrative Actions

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

## 4.3.B Specific Criteria for Determining School Financial Responsibility

#### Public Schools

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

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

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

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

#### Proprietary Schools and Private Nonprofit Schools

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

- The school is current in its debt obligations.

- The school's financial statements do not contain a statement in which the auditor has expressed doubt about the continued existence of the school.

- The school has not violated a Title IV program requirement or affiliated persons do not owe a liability for Title IV program violations.

- The school has sufficient cash reserves to make required refunds (see subsection 4.3.C).

- The school's Equity Ratio, Primary Reserve Ratio, and Net Income Ratio yield a composite score of at least 1.5 (see subsection 4.3.D).
  [§668.171(b) and (d)]

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

## 4.3.C
## Sufficient Cash Reserve Requirements

A school is considered to have sufficient cash reserves to make required returns of unearned Title IV funds if the school meets at least one of the following criteria:

- The school satisfies the financial responsibility standards for public schools.

- The school is located in, and is licensed to operate in, a state that has a Department-approved tuition recovery fund to which the school contributes.

- The school demonstrates that it returns unearned Title IV funds in a timely manner for students who withdraw from the school. For more information on the timely return of unearned Title IV funds, see subsection 4.7.B.
  [§668.171(b)(2); §668.173(a)]

### Compliance Threshold

A school fails to demonstrate that it has sufficient cash reserves for the timely return of unearned Title IV funds if, in a compliance audit conducted by an independent auditor or by the Office of the Inspector General, or in a program review conducted by the Department or a guarantor, the auditor or reviewer finds one of the following:

- The sample of student records audited or reviewed shows that the school did not return unearned Title IV funds timely for 5% or more of the students in the sample. For purposes of determining this compliance threshold percentage, the sample includes only students for whom the school was required to return unearned funds during the most recently completed fiscal year. The Department does not consider a school to be out of compliance if it is cited because it did not return unearned funds in a timely manner for one or two students or for less than 5% of the students in the sample.

- The review reveals a material weakness or reportable condition in the school's report on internal controls relating to the return of unearned Title IV funds.

If a finding in an audit or review shows that the school exceeded the 5% compliance threshold for either of its two most recently completed fiscal years, and if the school satisfies the sufficient cash reserve standard only by its timely return of unearned Title IV funds, the school must submit an irrevocable letter of credit acceptable and payable to the Department. The letter of credit must equal 25% of the total amount of unearned Title IV funds that the school was required to return during the school's most recently completed fiscal year. The school must submit the letter to the Department no later than 30 days after the earliest of the following:

- The date the school is required to submit its compliance audit.

- The date the Office of the Inspector General issues a final audit report.

- The date the designated Department official issues a final program review determination.

- The date the Department issues a preliminary program review report or draft audit report, or a guarantor issues a preliminary report, showing that the school did not return unearned funds for more than 10% of the sampled students.

- The date the Department sends a written notice to the school requesting a letter of credit that explains why the school has failed to return unearned funds in a timely manner.

### Exceptions to Letter of Credit Requirement

A school that is otherwise required to submit an irrevocable letter of credit acceptable and payable to the Department may be eligible for an exception if one of the following situations exists:

- The calculated amount of unearned Title IV funds that were not returned timely is less than $5,000 and the school can demonstrate that it has cash reserves of at least $5,000 available at all times. In this situation, the school is not required to submit the letter of credit.
- The school submits documents showing that the unearned Title IV funds were not returned in a timely manner solely because of exceptional circumstances beyond the school's control, and demonstrates that the school would not have exceeded the 5% compliance threshold had it not been for these exceptional circumstances.
- The school submits documents showing that it did not fail to make timely refunds of unearned Title IV funds.

In either of the last two instances, the school may delay submitting the letter of credit and request that the Department reconsider a finding made in its most recent audit or review report.

The school's request for consideration and supporting documentation must be submitted to the Department no later than the date the school would otherwise be required to submit a letter of credit. If the Department denies the school's request for an exception to the letter of credit requirement, the school will be notified of the date by which it must submit the letter of credit.
[§668.15(b)(5); §668.22; §668.171(b)(2); §668.173]

## 4.3.D Composite Score

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[Appendix A and Appendix B to Subpart L of §668; DCL GEN-01-02]

## 4.4 Reporting Social Security Number Changes

If a school becomes aware of any issues related to a student's or parent borrower's Social Security number (SSN) ~~change~~, the school is expected to ~~verify the correct~~ confirm the accuracy of the SSN by obtaining a copy of an acceptable source document (listed below under the subheading "Acceptable Source Documents for Social Security Number Changes"). Changes to a student's or parent borrower's SSN must be reported to the guarantor ~~through the National Student Loan Data System (NSLDS) using Enrollment Reporting or an equivalent process (see subsection 4.8.A for Enrollment Reporting requirements). If the change is to a parent borrower's SSN, the school must notify the guarantor directly~~. If the guarantor requires the supporting documentation for any SSN change, the school must provide it.[1]

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

### Acceptable Source Documents for Social Security Number Changes

Guarantors consider any of the following source documents acceptable for reporting an SSN change:

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

▲ Schools may contact individual guarantors for more information on procedures for reporting SSN changes. See section 1.6 for contact information.

1. Policy 699 (Batch 106), approved September 18, 2003

## 4.5 Leave of Absence

For purposes of clarity, the *Common Manual* uses the term "leave of absence" to indicate a status in which the student is considered to be continuously enrolled for Title IV program purposes. In order for a student to be considered to be continuously enrolled for Title IV program purposes, the school's leave of absence policy must comply with all of the requirements set forth in 34 CFR 668.22(d). If the school's leave of absence policy does not comply with these requirements, the student is considered to have withdrawn.

A student on an approved leave of absence is considered to be enrolled. A leave of absence is an approved leave of absence if the following conditions are met:

- The school has a written policy regarding leaves of absence that is publicized to students and that requires a written, signed, and dated request from the student prior to the leave of absence. The request must include the reason for the leave.
- The student has requested the leave of absence according to the school's policy, and the school has approved the leave. As part of its approval, the school must determine that there is a reasonable expectation that the student will return to school.
- The leave of absence does not involve additional charges by the school to the student.
- Except for a student enrolled in a clock-hour or non-term-based credit-hour program, upon return, the student must be permitted to resume and complete the coursework he or she began prior to the leave of absence at the point where the student interrupted his or her training. A student enrolled in a clock-hour or non-term-based credit-hour program is not required to complete the same coursework he or she began prior to the leave of absence upon return.
- If school policy requires a student to return at the beginning of a term and repeat some coursework previously completed, the school's leave of absence policy does not meet the standards required for an approved leave of absence even if the school does not charge the student for repeating the coursework.
- The total number of days of the student's combined, approved leaves of absence does not exceed 180 days in any 12-month period. The 12-month period begins on the first day of the student's leave of absence (or initial leave of absence, if applicable).

- Prior to granting the leave, the school explains to the student the effects that the student's failure to return from a leave of absence may have on repayment of the student's loans, including the depletion of some or all of the student's grace period.

Unforeseen circumstances may prevent a student from providing a written request prior to the leave of absence. In such cases, the school may grant the student's request for a leave of absence if it documents its decision and collects the student's written request at a later date.

If the student withdraws after returning from an approved leave of absence, the total number of calendar days in the payment period or period of enrollment used for a return of Title IV funds calculation must be adjusted. The number of calendar days in the leave of absence must be excluded from the total number of days in the payment period or period of enrollment to ensure that a student does not earn funds during a leave of absence.

A student on an approved leave of absence is considered to be enrolled at the school and is eligible for an in-school deferment if he or she satisfies other deferment eligibility requirements. However, a school may not credit a student's account or otherwise deliver loan proceeds to the student or parent borrower while the student is on an approved leave of absence. The school may credit a student's account or deliver loan proceeds to the borrower if the student has returned from an approved leave of absence on at least a half-time basis within the applicable delivery time frames described in subsection 8.7.A. If the student does not return from an approved leave of absence on at least a half-time basis or the school is otherwise unable to credit the student's account or deliver loan proceeds to the borrower, the school must return the loan proceeds to the lender within the applicable return time frames described in section 8.9. If the school returns loan proceeds received while the student is on an approved leave of absence, the school may request that the lender reissue those loan proceeds to coincide with the student's scheduled return from an approved leave of absence. See subsection 7.7.F for reissue requirements.

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

The last date of attendance for students who fail to return from an approved leave of absence is based upon whether the school is required to record attendance. For schools required to record attendance, the last date of attendance is the last date of academic attendance reflected in the school's attendance records. For schools not required to record attendance, the last date of attendance is the date the student began the leave of absence.
[§668.22(d); §668.167(b); §682.604(c)(4); *Federal Student Aid Handbook*, Institutional Eligibility Reference]

## 4.6 Withdrawal Dates

A student who ceases enrollment or fails to return to school as expected is considered to have withdrawn. The school must determine the withdrawal date and report that date to the National Student Loan Data System (NSLDS) and, if appropriate, the lender or guarantor. (See section 4.8 for information regarding a school's student status reporting requirements.)

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

A school must describe its withdrawal process to students, including those actions which constitute the "beginning" of the withdrawal process, and designate one or more offices the student must contact to provide official notification of withdrawal.

### Withdrawal Dates at Schools Required to Record Attendance

Some accrediting agencies, state regulatory agencies, and other outside entities require schools to record attendance for some or all of their students. For a school that is required to record attendance, even for a limited period of time, the withdrawal date is the student's last recorded date of academic attendance, as determined by the school from its attendance records. If a student does not resume attendance by the end of an approved leave of absence at the school, or takes a leave of absence that is not an approved leave of absence, the withdrawal date is the student's last recorded date of academic attendance.

A school is not required to record attendance based on the requirement of an outside entity for a single event (e.g., a one-day census activity).
[§668.22(b)]

### Withdrawal Dates at Schools Not Required to Record Attendance

If a school is not required to record attendance, the student's withdrawal date varies depending on the type of withdrawal.

*Official Notification of a Student's Intent to Withdraw*

If the student provides notice of his or her intent to withdraw, the withdrawal date is the earlier of the following:

- The date, as determined by the school, that the student began the school's withdrawal process.
- The date the student provided official notification to the school, in writing or orally, of his or her intent to withdraw. "Official notification to the school" is a notice of intent to withdraw that a student provides to an office or offices designated by the school. If the student creates more than one withdrawal date by multiple official notifications of his or her intent to withdraw, the earliest date must be used.

The school may allow a student to rescind his or her official notification to withdraw if the student signs a written statement that he or she is continuing to participate in academically related activities and intends to complete the payment period or period of enrollment, as applicable. If the student subsequently fails to attend or ceases attendance without completing the payment period or period of enrollment, the student's withdrawal date is the original date of notification of intent to withdraw, unless the school records a later date on which the student participated in an academically related activity.

*Official Notification of Withdrawal Not Provided by Student*

If the student does not initiate the withdrawal process, the withdrawal date is one of the following:

- The midpoint of the payment period (or period of enrollment, if applicable).
- The date the student began an approved leave of absence, if the student fails to return from the leave of absence.
- The date that the student begins an unapproved leave of absence (i.e., a leave of absence that does not comply with Title IV requirements).

As an alternative to the preceding dates, the school may use one of the following as a withdrawal date when a student does not initiate the withdrawal process:

- The last date of participation by the student in an academically related activity as documented by the school. "Academically related activities" include, but are not limited to: exams, tutorials, computer-assisted instruction, academic counseling, turning in class assignments, or attending study groups assigned by the school.

  The school's documentation of such activities must contain confirmation that the student participated.

- The date, as determined by the school, when circumstances beyond the student's control occurred (such as illness, accident, or grievous personal loss), prevented him or her from providing official notification to the school.

A school must have procedures in place to identify and resolve instances in which a student's attendance cannot be confirmed through the end of the payment period or period of enrollment, as applicable. These instances constitute unofficial withdrawals.

If a student does not earn a passing grade in at least one class in which he or she was enrolled, the school may not presume that the student completed the payment period or period of enrollment, as applicable. If the school cannot confirm the student's attendance through the end of the payment period or period of enrollment, as applicable, the school must use either the midpoint of the period or the student's last day of participation in an academically related activity—as documented by the school—as the student's withdrawal date.[1]

### Withdrawals From Standard Term-Based Programs Offered in Modules

When a student withdraws from a standard term-based program comprised of a series of modules, the school must determine if a return of Title IV funds calculation is necessary based on the following criteria. (See section 6.4 for information regarding standard term-based programs offered in modules.)

- If the student withdraws after the completion of at least one course in one of the modules within the term, the student is not considered to have withdrawn for return of Title IV funds purposes and a return calculation is

1. Policy 695 (Batch 105), approved August 21, 2003

not required. However, other regulatory provisions concerning eligibility for awards and recalculation may apply.

- If the student withdraws prior to the completion of at least one course in one module, the student is considered to have withdrawn for return of Title IV funds purposes and a return calculation is required unless the student provides confirmation to the school—subsequent to his or her withdrawal from the course—that he or she plans to attend a module later in that term. The school may not rely on registration information obtained from the student prior to his or her withdrawal.

- If the student withdraws prior to the completion of at least one course in one module and provides confirmation that he or she plans to attend a subsequent module within the term but then fails to do so, the student is considered to have withdrawn as of the date that would have applied if the student had not indicated his or her intent to return in a subsequent module within the term.

- If the student withdraws prior to the completion of at least one course in one module, the payment period used to calculate the return of Title IV funds must include all of the calendar days in all of the modules in the term. The payment period begins on the student's first day of attendance and ends on the last day of classes of the last module that the student was scheduled to attend. For example, if the school's term consists of 3 modules of 5 weeks each or 35 calendar days, and the student only enrolled in 2 modules, the denominator in the calculation of the percentage of the payment period completed would be 70 days, not 105 days. See subsection 4.7.A.
[DCL GEN-00-24]

### Documenting and Reporting Withdrawal Dates

The school must maintain documentation of the withdrawal date as of the date the school determines the student withdrew.

The school must report the withdrawal date to the lender. This date determines the beginning of the borrower's grace period or repayment period. A withdrawal date must consist of month, day, and year.
[§668.22(c); §682.605(b) and (c)]

### Date of Determination of a Student's Withdrawal Date

The date of determination (i.e., the date on which the school makes the determination that the student has withdrawn) is a critical component in the return of Title IV funds calculation. This date is determined as follows:

- For a student who provides official notification of his or her withdrawal, the date of determination is the later of:
  - The student's withdrawal date, as determined by a school that is not required to take attendance.
  - The date the student notified the school that he or she withdrew.
- For a student who does not provide notification of his of her withdrawal to the school, the date of determination is the date on which the school becomes aware that the student ceased attendance.
- For a student who does not return from an approved leave of absence, the date of determination is the earlier of:
  - The date the leave of absence ends.
  - The date the student notifies the school that he or she will not be returning.
- For a student who rescinds his or her official notification of withdrawal and subsequently does not complete the payment period or period of enrollment, the date of determination is the date the school becomes aware that the student did not or will not complete the payment period or period of enrollment.
- For a student who takes an unapproved leave of absence, the date of determination is the date that the student begins the leave of absence.

*Time Frames Applicable to the Date of Determination*

For a student who does not provide official notification of his or her withdrawal, the school must determine the student's withdrawal date within 30 days *from the earliest* of:

- The end of the payment period or period of enrollment for which the student was charged.

- The end of the academic year during which the student withdrew.
- The end of the educational program from which the student withdrew.

A school must return Title IV program funds no later than 30 days after the date of determination. If the student is eligible for a post-withdrawal disbursement, it must be offered to the student or, in the case of a PLUS loan, the parent, within 30 days of the date of determination.

## 4.7 Return of Title IV Funds

For each Title IV aid recipient who withdraws, the school must calculate the amount of Title IV assistance the student has earned. This amount is based upon the length of time the student was enrolled. The school must return any portion of unearned Title IV funds for which the school is responsible. The school must also advise the student of the amount of unearned Title IV grant aid that he or she must return, if applicable. The student (or parent, in the case of a PLUS loan) must repay any unearned funds that the school did not return according to the normal terms of the loan. To assist schools, the Department has provided Return of Title IV Funds worksheets.

The school must provide to enrolled and prospective students a copy of any refund policy with which the school is required to comply and addresses the return of unearned tuition and fees or other refundable costs paid by the student. The written policy must include the requirements and procedures a student should follow to officially withdraw from the school. The school must also provide a summary of the federal requirements for the return of Title IV funds, as detailed in 34 CFR 668.22.
[§668.43]

In the event of a school's closing, termination, suspension of operations, or change in ownership, the school or the school's new owners must continue to comply with the requirements for the return of Title IV funds for any Title IV recipient who withdraws.
[§668.26(b)(7)]

## 4.7.A Return Amounts for Title IV Grant and Loan Programs

If a student has completed more than 60% of the payment period, he or she is considered to have earned 100% of the Title IV grant and loan aid received for the payment period. In this case, no funds need to be returned to the Title IV aid programs.

However, if a student withdraws before completing more than 60% of the payment period or period of enrollment, the amount of any Title IV loan and grant aid the student received for the payment period (or period of enrollment) must be recalculated to reflect the portion of the payment period that he or she completed prior to withdrawal. The unearned Title IV loan and grant aid for the percentage of the payment period not completed must be returned to the applicable Title IV aid programs.

### Determining the Percentage of Payment Period/Period of Enrollment Completed

*Term-Based Programs with Semesters, Trimesters, or Quarters*

Calculations for the return of Title IV funds must be based upon the payment period.

*Non-Term-Based Programs and Nonstandard Term-Based Programs*

Calculations for the return of Title IV funds may be based upon the period of enrollment, rather than the payment period. Schools must consistently use either the payment period or the period of enrollment as the basis for all calculations for the return of Title IV funds for the following categories of students:

- Students who attend an educational program from the beginning of the period of enrollment or payment period.
- Students who reenter the school during a period of enrollment or payment period.
- Students who transfer into the school during a period of enrollment or a payment period.
  [§668.22(e)(5)]

*Credit-Hour Programs*

For programs measured in credit hours, the total number of calendar days the student completes is divided by the total number of calendar days in the payment period or period of enrollment:

$$\frac{\text{Total number of calendar days completed}}{\text{Total number of calendar days in the payment period/period of enrollment}}$$

For purposes of this calculation, "calendar days" refers to all days within the period, excluding scheduled breaks of 5 or more consecutive days. Scheduled breaks measure the time between the last day of scheduled classes and the next day that classes are held, and include weekends and any periods during which the student is on an approved leave of absence.

If a student withdraws after a scheduled break, the following are examples of periods that must be excluded from the calculations:

- If a break begins on a Wednesday, no classes are held the following weekend, and classes resume on Monday, the weekend days are included in the break. By including the weekend, the break is 5 days long, and 5 days must be excluded from both the numerator and the denominator of the calculation.

- If a break begins after classes end on Friday and classes resume on Monday following a one-week break, both weekends are included in the break. This break is 9 days long, and 9 days must be excluded from both the numerator and the denominator of the calculation.

- If a break begins after classes end on Friday and classes resume on Monday following a one-week break and the student is granted an approved Title IV leave of absence for 30 days beginning on the Monday that classes resume, both weekends and the leave of absence are included in the break. The break, including the leave of absence, is 39 days long and 39 days must be excluded from both the numerator and the denominator of the calculation.

If a student withdraws prior to a scheduled break, the number of days in any scheduled break is excluded from the denominator. The numerator reflects the total number of calendar days the student completed. For example, if a student attends 20 days of a 90-day semester that includes one scheduled break of 7 consecutive days and the student withdraws prior to the break, the numerator of the calculation is 20 and the denominator is 83 (20/83 =.2409 completed).

*Clock-Hour Programs*

For programs measured in clock hours, the total number of clock hours the student completed is divided by the total number of clock hours in the payment period or period of enrollment. Excused absences do not count as completed hours for this formula.

$$\frac{\text{Total number of clock hours completed}}{\text{Total number of clock hours in the payment period/period of enrollment}}$$

If the student completed 60% or less of the payment period or period of enrollment and certain conditions are met, the school may use scheduled hours to determine the percentage of aid earned. (See "Percentage of Title IV Aid Earned" in this subsection.)

*Rounding Requirements for All Programs*

In calculating the percentage of the payment period or period of enrollment completed, percentages are calculated to three decimal places. The third decimal is rounded up if the fourth decimal is 5 or above and rounded down if the fourth decimal is 4 or below. The only exception to this rule is that quotients of .6001 through .6004 are not rounded down. This exception recognizes that students who complete more than 60% of the payment period or period of enrollment have earned 100% of their Title IV aid. If the rounding rules were followed in this exception, the quotient, which is greater than 60%, would have been rounded to .60 and the student would not have earned 100% of his or her Title IV aid.

### Disbursed Aid

Disbursed aid consists of funds that have been credited to the student's account or delivered to the student. Disbursed aid is determined as of the date the school becomes aware that the student withdrew. Disbursed aid may include funds that were credited to the student's account prior to the school's knowing that the student had withdrawn or ceased attending, but after the student's last date of attendance.

### Aid That Could Have Been Disbursed

Title IV aid that could have been disbursed includes aid the school awarded to the student for the payment period or period of enrollment, but was not credited to the student's account or delivered to the student as of the date the school became aware the student withdrew. The student is required to have met all eligibility requirements for each applicable Title IV program in order for the Title IV aid for that program to be included as aid that could have been disbursed.

In the case of FFELP funds, the school may include in its return of Title IV funds calculation the amount of any disbursement that could have been made, but was not made, on or before the day that the student withdrew. However, the return of Title IV funds requirements, including the post-withdrawal disbursement requirements, do not supersede the late disbursement provisions applicable to FFELP funds. Before making a post-withdrawal disbursement of FFELP funds, the school must determine that the borrower is eligible for a late delivery under the provisions in subsection 8.7.E. (See also subsection 7.7.G for the late disbursement provisions applicable to lenders.)

When a student withdraws prior to completing the period for which the loan is intended, no portion of any second or subsequent disbursement may be disbursed as a post-withdrawal disbursement even if the amount of the second or subsequent disbursement was included as aid that could have been disbursed for purposes of determining earned Title IV funds. However, if the borrower is determined eligible for a late delivery, the school must offer a post-withdrawal disbursement of FFELP funds and, if accepted, must deliver the funds to the borrower.
[§668.164(g); DCL GEN 00-24, Q&A 11]

### Aid Types To Be Excluded from the Return Calculations

When calculating the return of Title IV funds, the school must exclude the following amounts from the return calculations, as applicable:

- Any Federal Work-Study funds that the student earned.
- The nonfederal share of an FSEOG award if the school meets its matching share by the individual recipient method or the aggregate method.

If the state LEAP (formerly SSIG) program in which the school participates contains any federal funds, the grant is considered as LEAP grant funds and the entire amount must be included in the calculations for the earned and/or unearned amounts of Title IV aid. For more information, consult the preamble to the Student Assistance General Provisions final rules published by the Department on November 1, 1999.
[§668.22(a)]

### Percentage of Title IV Aid Earned

The student earns 100% of his or her Title IV aid if the student's withdrawal date occurs after the completion of 60% of either of the following:

- The payment period or period of enrollment for a program that is measured in credit hours.
- The clock hours completed for the payment period or period of enrollment for a program measured in clock hours.

The percentage of Title IV loan and grant aid earned by the student is equal to the percentage of the payment period or period of enrollment that the student completed as of the date of the student's withdrawal, if this date occurs on or before the completion of 60% of either of the following:

- The payment period or period of enrollment for a program that is measured in credit hours.
- The clock hours completed for the payment period or period of enrollment for a program that is measured in clock hours. If the student completed at least 70% of the clock hours scheduled to be completed as of his or her withdrawal date, the school may use scheduled hours to determine the percentage of Title IV aid earned. To determine whether scheduled hours may be used, divide the number of clock hours completed by the number of clock hours scheduled to be completed as of the student's withdrawal date.

$$\frac{\text{Total number of clock hours completed}}{\text{Total number of clock hours scheduled to be completed}}$$

However, the concept of a student earning 100% of his or her Title IV aid if the percentage completed exceeds 60% does not apply for clock-hour programs if scheduled hours are used to determine the percentage of Title IV aid earned. For example, if a student withdraws after completing 248 hours of a 450-hour payment period, he or she completed 55% of the payment period (248/450 = 55%). In this case, if the student was scheduled to complete 279 hours at the time he or she withdrew, the student completed at least 70% of the scheduled hours (248/279 = 89%) and the school may use scheduled hours to determine the percentage of Title IV aid earned. Therefore, scheduled hours (279) are divided by the total hours in the payment period (450) to determine the student earned 62% of his or her Title IV aid for the payment period. Remember that since scheduled hours were used in the calculation, the student has not earned 100% of his or her Title IV aid even though the calculation resulted in a quotient of over 60%. For more information on withdrawal dates, see section 4.6.

The student earns 100% of his or her Title IV aid if the student's withdrawal date occurs after the completion of 60% of either of the following:

- The payment period or period of enrollment for a program that is measured in credit hours.
- The clock hours completed for the payment period or period of enrollment for a program measured in clock hours.

[§668.22(e)(2); *The Student Financial Aid Handbook*, Institutional Eligibility Reference]

### Amount of Title IV Aid Earned by the Student

The amount of Title IV loan and grant aid earned by the student equals the amount of aid that was delivered to the student plus the amount of aid that could have been disbursed or delivered during the payment period or period of enrollment, multiplied by the calculated percentage of Title IV aid earned.

Percentage of Title IV aid earned X (Total Title IV aid delivered + total Title IV aid that could have been disbursed or delivered) = Title IV aid earned

### Determining the Amount of Unearned Aid to be Returned

If the total amount of disbursed aid is greater than the amount of Title IV aid earned by the student, the amount of Title IV loan and grant aid that is unearned and must be returned is calculated as follows:

Total Title IV disbursed aid – Title IV aid earned = Title IV loan and grant aid to be returned

Monetary amounts may be rounded normally, to the nearest cent. Return amounts, for both the school and the student, may be rounded to the nearest dollar.

When calculating the amount of loan funds to be returned to the lender, the school should use the net amount that was received from the lender (the gross amount minus the guarantee and origination fees) as the basis. The lender will adjust the guarantee and origination fees.

The school is responsible for returning the lesser of the following amounts to applicable Title IV programs:

- The total amount of unearned aid.
- The amount that is equal to the total institutional charges incurred by the student for the payment period or period of enrollment multiplied by the percentage of unearned aid.

*Institutional Charges*

The charges incurred by the student may include tuition, fees, room and board, and other educationally related charges assessed by the school.

The institutional charges used in the return of Title IV funds calculation are always the institutional charges that were initially assessed the student for the payment period or period of enrollment, unless the school adjusted the student's institutional charges before the student withdrew (e.g., tuition was adjusted for a change in enrollment status).
[§668.22(g)(1)(ii) and (2)]

If the school waives all or some of the tuition and fees for certain students, the waiver of tuition and fees under the return of Title IV funds requirements must be consistent with the required treatment of the waiver for purposes of calculating the student's cost of attendance (COA) for Title IV purposes. (See section 6.5)
[DCL GEN-00-24]

The school should calculate the return of Title IV funds based upon the period for which it is charging. If a school chooses to calculate the amount of Title IV assistance on a payment period basis, for a non-term program or for a nonstandard term program, but the school charges for a period of enrollment longer than the payment period, the total charges incurred by the student are the greater of the following:

- The prorated amount of charges for the longer period.
- The amount of Title IV aid retained for charges as of the student's withdrawal date.

A school must return to the appropriate program its share of Title IV funds. The amount that must be returned is the lesser of:

- The amount of Title IV funds that the student did not earn.
- The amount of institutional charges incurred by the student for the payment period or period of enrollment multiplied by the percentage of funds not earned. (This amount is calculated by subtracting the percentage of funds earned from 100%.)

*Aid Delivered to a Student before Institutional Charges Are Paid*

School policy may result in Title IV funds being delivered to a student to assist him or her with living expenses with the expectation that institutional charges will be covered in a second or subsequent disbursement of Title IV aid. However, if the student withdraws before the school receives the second or subsequent disbursement, and the return of Title IV funds calculation indicates that the school must return funds, the school is still required to return the funds to the appropriate Title IV loan or grant program. [§668.22(g); *Federal Student Aid Handbook*, Institutional Eligibility Reference]

If the amount of unearned aid exceeds what the school must return, the student is responsible for returning unearned Title IV loan and grant aid. If funds must be repaid to a Title IV loan program, the student (or parent, in the case of a PLUS loan) returns those funds by normal repayment of the loan according to the terms and conditions of the promissory note. If funds must be repaid to a Title IV grant program, the student is obligated to return only one half of the unearned grant amount.
[§668.22(h)]

**Post-Withdrawal Disbursements**

A post-withdrawal disbursement is a disbursement made to a student who has withdrawn, but who has earned more aid than has been disbursed. If the student has earned more Title IV aid than has been disbursed and is otherwise eligible to receive funds, the school must offer to make a post-withdrawal disbursement to the student (or parent, in the case of a PLUS loan). No return of funds is required when the student is eligible to receive a post-withdrawal disbursement. The school may credit all or a portion of the post-withdrawal disbursement to the student's account, up to the amount of outstanding charges. To assist schools, the Department has provided a Post-Withdrawal Disbursement Tracking Sheet.

A post-withdrawal disbursement is different from a late disbursement (as described in subsection 7.7.G) in the following ways:

- A late disbursement may be made if a student ceases to be enrolled at least half time but has not withdrawn. A post-withdrawal disbursement must be offered and, if accepted, must be made after an eligible student withdraws.

- The post-withdrawal disbursement must be made from available Title IV grant funds before available loan funds.

- The 120-day period for the school to disburse the post-withdrawal disbursement is calculated from the date of the school's *determination* that the student withdrew rather than from the student's withdrawal date.

- Before making a post-withdrawal disbursement of FFELP funds, the school must determine that the borrower is eligible for a late delivery under the provisions in subsection 8.7.E. (See also subsection 7.7.G for the late disbursement provisions applicable to lenders.) When a student withdraws prior to completing the period for which the loan is intended, no portion of any second or subsequent disbursement may be disbursed as a post-withdrawal disbursement even if the amount of a second or subsequent disbursement had been included as aid that could have been disbursed for purposes of determining earned Title IV funds. However, if the borrower is determined eligible for a late delivery, the school must offer a post-withdrawal disbursement of FFELP funds and, if accepted, must deliver the funds to the borrower. [DCL GEN 00-24, Q&A #11]

If any amount of a post-withdrawal disbursement remains after the student's charges are paid, the school must offer that amount to the borrower within 30 days of determining that the student withdrew. The school must provide a written notice to the borrower indicating the following:

- The type and amount of aid that has been credited to the student's account.

- That the borrower has the right to cancel all or a portion of a post-withdrawal disbursement of loan funds.

- The amount of the post-withdrawal disbursement(s) that will be applied to charges and the amount that will be provided to the student (or parent) as a credit balance, if applicable.

- That the school may not make the post-withdrawal disbursement of the credit balance, if applicable, if the borrower does not respond within 14 days of the date the school sends the notice.

If the borrower responds to the notice within 14 days and instructs the school to make all or a portion of the post-withdrawal disbursement, the school must make the post-withdrawal disbursement of the credit balance within 120 days of determining that the student withdrew and in the manner specified by the borrower. If the borrower does not respond to the notice, the post-withdrawal disbursement of the credit balance cannot be made. If the borrower responds to the school's notice after the 14 days have expired, the

school may, but is not required to, make the post-withdrawal disbursement of the credit balance to the borrower. If the school chooses not to make the post-withdrawal disbursement of the credit balance, it must provide written or electronic notice to the borrower of the outcome of his or her post-withdrawal disbursement request.

The school must have written permission from the student or parent borrower to automatically apply a post-withdrawal disbursement to charges other than current institutional charges or minor prior-year charges. Permission obtained from the borrower while the student was enrolled is acceptable, or the school may obtain the permission with the post-withdrawal disbursement notice. [§668.22(a); §668.164(g)]

## 4.7.B Processing Returned Funds

The following requirements apply for a school's processing of Stafford and PLUS loan funds to be returned:

- The school's portion of the funds to be returned that are attributable to a FFELP loan must be sent to the lender. If the ownership or servicing of the borrower's loan has been transferred, and the school knows the identity of the new holder or servicer, the returned funds must be paid to that entity instead of the original lender.
- The school must return funds to the lender no later than 30 days after determining that the student withdrew.
- The school must provide to the borrower written notice that funds are being returned to the borrower's loan(s). Evidence of this written notice should be documented in the student's file.

Refunds allocable to FFELP loans because of policies that the school must follow for non-Title IV aid programs or for regulatory agencies, such as a state agency or an accrediting agency, must also be made within their prescribed time frames.

The school's return of FFELP funds is considered timely if, no later than 30 days after the date the school determines that the student withdrew, the school does one of the following:

- Deposits or transfers the amount of funds to be returned into an account the school maintains for federal funds (see section 8.1).
- Initiates an electronic funds transfer (EFT) for the amount of returned funds.
- Initiates an electronic transaction that informs the lender to adjust the borrower's loan account for the amount of returned funds.
- Issues a check for the returned funds. In this case, the school's records must show that the lender's bank endorsed that check no more than 45 days after the date the school determined that the student withdrew.

For more information on sufficient cash reserve requirements to make required returns of unearned Title IV funds, see subsection 4.3.C. For more information on determining the student's withdrawal date, see section 4.6. For more information on determining the amount of the Title IV funds to be returned, see subsection 4.7.A.

A school may be assessed financial liability for the late return of Title IV funds or willful nonpayment of applicable refunds. A school must ensure that all funds that must be returned for Stafford and PLUS loans are paid to lenders within the required time frame. [§668.173(b); §682.607]

Guarantors recommend that the school's notice accompanying the return of funds to lenders include the following information:

- The student's name and Social Security number (SSN).
- The parent's name and SSN (for PLUS loan funds).
- The check number, if applicable.
- The amount of the returned funds.
- The loan type (subsidized Stafford, unsubsidized Stafford, or PLUS).
- The loan period.
- The student's withdrawal date, graduation date, or last date of attendance as at least a half-time student.
- The most recent address that the school has on file for the student.
- The disbursement number, if applicable.
- The reason for the return of funds (such as withdrawal, overaward, leave of absence).
- Whether or not subsequent disbursements should be cancelled or rescheduled.

### Applying Returned Funds

The Higher Education Act and federal regulations specify the order in which unearned funds must be returned to the Title IV programs. Schools must ensure that returned funds are applied to eliminate outstanding balances on loans and grants for the payment period, or period of enrollment, in the following order:

- Unsubsidized Stafford loans.
- Subsidized Stafford loans.
- Direct Unsubsidized Stafford loans.
- Direct Subsidized Stafford loans.
- Federal Perkins Loans.
- PLUS loans received on behalf of the student.
- Direct PLUS loans received on behalf of the student.
- Federal Pell Grants.
- Federal SEOG Program aid.
- Other Title IV grant or loan assistance.

The school may calculate and make refunds for non–Title IV federal, state, private, or institutional student assistance programs according to the applicable policies.
[§668.22(i)]

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

## 4.7.C
## Responsibilities for Unpaid Refunds

The guarantor will notify the lender and the school if it receives an unpaid refund allegation. The notice will include all pertinent facts available to the guarantor regarding the allegation. For lender responsibilities applicable to unpaid refund requests received for both open and closed schools, see subsection 12.8.F.

Within 60 days of receiving the allegation notice from the guarantor, the school must do one of the following:

- Make the required refund to the lender.
- Provide documentation to the guarantor to substantiate that the refund was already paid to the lender.
- Provide documentation to the guarantor to substantiate that the refund was not required.

If the school does not comply with one of the preceding requirements, relief will be provided to the borrower if the guarantor determines that the relief is appropriate. If the guarantor provides relief to the borrower, the guarantor will report to the Department the school's failure to pay the refund.
[§682.402(l)(5)(viii) and (ix)]

## 4.8
## Student Enrollment Status Reporting

A school must develop procedures to ensure that student enrollment status changes are reported correctly and in a timely manner to the guarantor and/or the lender. All schools with the exception of foreign schools must report enrollment status changes to the National Student Loan Data System (NSLDS). Schools may elect to satisfy this requirement through participation in the National Student Clearinghouse (see subsection 4.8.C). If a school does not report to the NSLDS directly or through the use of a third-party servicer such as the National Student Clearinghouse, the school is not in compliance with the enrollment reporting requirements.
[§682.610(c)]

## 4.8.A
## National Student Loan Data System (NSLDS) Enrollment Reporting

Enrollment Reporting, previously called the Student Status Confirmation Report (SSCR), is a function of the National Student Loan Data System (NSLDS). Schools that have received a letter from the Department confirming successful submission of an enrollment Roster File to the NSLDS are exempt from the requirement to provide enrollment information directly to guarantors. Schools that have not received a letter from the Department confirming successful submission of an enrollment Roster File to the NSLDS must respond both to enrollment rosters received from the NSLDS and guarantors until otherwise notified by the Department.
[DCL GEN-96-17/96-L-189/96-G-291; DCL GEN-97-9; DCL G-00-329/L-00-223; *NSLDS Enrollment Reporting Guide*; *NSLDS Newsletter*, Number 2, January 2002]

▲ Questions concerning the proper completion and submission of enrollment data to the guarantor should be directed to the guarantor that prepared the paper roster. See section 1.6 for contact information.

The accuracy of a Title IV student loan record~~s~~ depends on the accuracy of the data reported by the school~~s~~ and other entities. An NSLDS record~~s~~ must be accurately matched with the school's enrollment record~~s~~. If one or more of the student identifiers provided by the NSLDS differs with the information in the school's records and if the school is sure that its student identifiers are correct based on a reliable source or documentation in its records, the school must contact the guarantor to correct the identifiers.

The ~~S~~school~~s~~ should review, update, or verify a student's enrollment status~~es~~ and other information with information that appears on the Roster File. The ~~S~~school~~s~~ updates NSLDS enrollment information through the following two methods:[1]

- *Batch Method:* This method allows a school to receive and process a single electronic enrollment Roster File and transmit the enrollment data back to the NSLDS as a single file.

- *Online Method:* This method allows a school to update enrollment data directly on the NSLDS Web site screens.

The NSLDS generates an enrollment Roster File for each school up to six times per year on a schedule chosen by the school. A school may select its schedule using the Enrollment Reporting Schedule Web page on the NSLDS Web site. The Department recommends that schools schedule enrollment reporting cycles every other month during the academic year to eliminate the need for ad hoc reporting (i.e., specific reporting outside a school's normal cycle) of enrollment information.

The NSLDS transmits an electronic Roster File to the school or the school's designated servicer on the day of the month designated by the school's Enrollment Reporting Schedule. For each student listed on the enrollment Roster File, a school must confirm or update the enrollment status and return the updated roster—called the Submittal File—to the NSLDS within 30 days of the date the Roster File was created. To reduce response time, schools that employ third-party servicers may opt to synchronize the transmittal of the NSLDS roster with the delivery of the school file to the third-party servicer. Schools may also complete responses to the Roster File online, eliminating the need to return a Submittal File.

The NSLDS processes the file and returns an Acknowledgement/Error File that includes a count of accepted records and any record errors. Schools must correct errors and return the corrections within 10 days of the school's receipt of the Acknowledgement/Error File. The Acknowledgement/Error File may not indicate an error, but serves as confirmation that the Submittal File was received and processed by the NSLDS. The school must retain a record of the file for audit purposes.
[*NSLDS Enrollment Reporting Guide*, April 1, 2002]

Schools that fail to return their Submittal File within 30 days of the date it was created receive a series of overdue letters during the 60- to 65-day period following the Submittal File return deadline. If the school uses a servicer to submit the Enrollment Report, the school remains responsible for timely and accurate reporting. Schools that do not comply with the Submittal File return requirements may lose eligibility for Title IV student aid or may have fines imposed.

1. Policy 699 (Batch 106), approved September 18, 2003

The school's enrollment roster will include the student's enrollment status. The school must report any changes to enrollment statuses provided on the Roster File including the effective date of any change~~, as well as changes to the student's name, date of birth, Social Security number (SSN), permanent address (and the effective date of the address change), or~~ and the anticipated graduation date. The school must then return the enrollment data to the NSLDS, which forwards enrollment information to all guarantors. The guarantor will forward any updated enrollment information ~~(including, but not limited to, changes to the student's name, date of birth, SSN, or permanent address)~~ to the appropriate lenders or servicers. The NSLDS may also send enrollment information directly to certain FFELP lenders and servicers at the same time it sends information to guarantors. The NSLDS notifies guarantors of those lenders and servicers receiving enrollment information directly from the NSLDS. [§682.401(b)(20); §682.610(c); DCL G-00-329/L-00-223][1]

Schools also should note the following additional instructions:

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

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

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

- If the student was enrolled previously at the school, but is not currently enrolled, the school should provide the borrower's last date of at least half-time attendance. The school should not report the student as *never attended* or *no record found*. If the school has additional information about the student (for example, the student is deceased~~, has a name change, or has an inaccurate date of birth or SSN~~), the school must include this information on the Submittal File. If the SSN ~~appears to have changed~~ is inconsistent with the school's records, the school should continue to verify the enrollment status and report the SSN ~~change~~ discrepancy to the ~~NSLDS~~ guarantor.[1]

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

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

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

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

  Note: The Department has waived the enforcement of schools' reporting of day-specific graduation dates until the National Student Loan Data System (NSLDS) is available for the transmission of this information. In the interim, a school should provide the date a student was last enrolled at least half time, and the lender should use that date to the extent possible.

1. Policy 699 (Batch 106), approved September 18, 2003

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

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

Questions on the proper completion and submission of enrollment data to the NSLDS should be directed to the NSLDS Customer Service Center. See appendix D for contact information.
[DCL GEN-96-17/96-L-189/96-G-291; DCL GEN-97-11; DCL G-00-329/L-00-223; *NSLDS Enrollment Reporting Guide; The Blue Book,* Chapter 6, section 6.4; *NSLDS Newsletter,* Number 2, January 2002]

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

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

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

- Has dropped to less than half-time enrollment.
- Has failed to enroll on at least a half-time basis.
- Has ceased to be enrolled on a full-time basis. [§682.610(c)(2)]

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

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

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

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

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

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

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

## 4.8.C
## National Student Clearinghouse

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

Participating schools report all of their enrolled students to the Clearinghouse—by electronic transmission, tape, or diskette. Participating guarantors send computer tapes listing all of their guaranteed borrowers to the Clearinghouse. The Clearinghouse then matches the guarantor data base against the school enrollment data base and reports to the guarantor the student's most current status—including the identification of each borrower who has withdrawn from school, transferred from one school to another, returned to school and is eligible for deferment, or continued in school and is eligible for a deferment

extension. Guarantors then report status changes to lenders. Lenders and loan servicers that would rather request status information directly may become members of the Clearinghouse.

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

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

▲ Schools may contact individual guarantors to determine whether each guarantor participates in the Clearinghouse. See section 1.6 for contact information.

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

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

## 4.9 Providing Information to Students

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

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

The following information must be included in debt counseling:

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

For more information on the responsibilities of a financial aid office, the school may refer to 34 CFR 682.604 and 34 CFR 668.42, as well as the *Federal Student Aid Handbook*, Institutional Eligibility Reference and Direct Loan and FFEL Programs Reference.

### 4.9.A Consumer Information

A school participating in any Title IV program must provide annually to all enrolled students—and to prospective students, upon request—consumer information concerning the school and any financial assistance available to students attending the school, along with the school's completion or graduation rate and its transfer-out rate. A school must also provide consumer information to employees and prospective employees and provide certain related reports (e.g., crime statistics reports).

The school's written student consumer information and related reports must adhere to regulatory requirements, as outlined in Subpart D (Institutional and Financial Assistance Information for Students) of the Student Assistance General Provisions. Schools should refer to 34 CFR 668.41 through 668.48. Schools also may wish to consult other Department of Education publications, such as the *Federal Student Aid Handbook*, Institutional Eligibility Reference for more information on student consumer information requirements.

Student consumer information must be made available to all currently enrolled students and prospective students. Regulations define a prospective student as an individual who has contacted an eligible school to request information about admission to the school. The information must be made available prior to the student's enrolling or entering into any financial obligation with the school. An Internet Web site may be used to provide information to prospective students; however, an *Intra*net Web site may *not* be used. For enrolled students, the information may be made available through an Internet Web site or an Intranet Web site that is reasonably accessible to the individuals to whom the information must be disclosed.
[§668.41]

When a school participating in any Title IV program offers a potential student athlete athletically related student aid, the school must provide the potential student athlete—and his or her parents, high school coach, and guidance counselor— information on completion or graduation rates and transfer-out rates for student athletes, following the requirements of 34 CFR 668.48. The school also must submit the report produced to provide information to these students to the Department by July 1 of each year. Schools should refer to 34 CFR 668.41(b) and (f) and 668.48 for

information on disclosure requirements for student athletes. A school's responsibilities may be satisfied if all of the following criteria are met:

- The school is a member of a national collegiate athletic association.
- The association compiles data on behalf of its member schools, which the Department determines is comparable to those required in 34 CFR 668.48.
- The association distributes the data to all secondary schools in the United States.
  [§668.41(b) and (f)]

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

### Financial Assistance Information

A school must provide financial assistance information regarding its programs, including a description of all federal, state, local, private, and institutional aid programs to enrolled and prospective students. For each listed financial aid program, the school's student consumer information must include, but is not limited to, descriptions of:

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

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

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

### Student Rights and Responsibilities

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

- The criteria for continued student eligibility under each program.
- The standards by which the school determines, for the purpose of awarding financial assistance, whether a student is making satisfactory academic progress (SAP), and the criteria that must be met by a student who has failed to maintain SAP to reestablish eligibility for assistance.
- Information on how and when a student will receive financial assistance payments.
- The terms of any loan received by a student as part of a financial assistance package and a sample loan repayment schedule. Loan terms that should be disclosed include the interest rate, the total amount that must be repaid, the requirements on when repayment must begin, and the length of time allotted for repayment. The necessity of repaying the loan should be emphasized. Additional information must be provided during entrance and exit counseling sessions.
- Provisions for cancellation, deferment, or forgiveness of FFELP loans, including deferment for service in the Peace Corps, under the Domestic Volunteer Service Act of 1973, or comparable volunteer service for a tax-exempt organization.
- The general conditions and terms applicable to any employment provided to a student as part of the student's financial assistance package (for students receiving aid under the Federal Work-Study Program).
  [§668.42(c)]

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

### Additional Student Consumer Information

Upon request, a school must make readily available to enrolled and prospective students information regarding the school and its administration and academic standards. Such information must address the following characteristics of the school:

- The cost of attending the school, including:
  - Tuition and fees charged to full-time and part-time students.
  - Estimated costs for necessary books and supplies.
  - Estimates of typical costs for room and board.
  - Estimates of transportation costs for students.
  - Any additional costs for a particular program in which a student is enrolled or expresses an interest.
- Any refund policy with which the school is required to comply for the return of unearned tuition and fees or other refundable charges paid to the school.
- The requirements and procedures for officially withdrawing from the school.
- A summary of the requirements under 34 CFR 668.22 for the return of Title IV loan or grant assistance. For more information on school requirements for returning Stafford or PLUS loan funds, see section 4.7.
- The school's current degree programs and other educational and training programs.
- The school's instructional, laboratory, and other physical facilities that relate to its academic programs.
- The school's faculty and other instructional personnel, including the names and qualifications of members.
- The names of the school's accrediting or licensing organizations and the procedures under which any current or prospective student may review—upon request—a copy of the documents describing the school's accreditation, approval, or licensing.
- Special facilities and services available to students who are physically challenged. This information may include detailed descriptions of all facilities (such as ramps and special parking arrangements) and services (such as special tutors, library books in Braille, and audio-visual materials available). If the school has chosen not to provide special facilities or services, the school may report that no facilities exist to accommodate students with special needs.
- The titles of designated school personnel that are available on a full-time basis to assist students and prospective students in obtaining consumer information about the school—with information on how and where those persons may be contacted. [§668.44]
- For schools with study-abroad programs, a statement to the effect that enrollment in the foreign school is equivalent to enrollment in the home school for purposes of establishing Title IV eligibility.
- The licensing or certification requirements of the state in which the school is located.
- For schools that use job placement statistics in recruiting students, the job placement rate for students scheduled for program completion in the most recent calendar year. For these purposes, any graduate for whom the school does not possess documented evidence of employment in the occupation for which the program was offered may not be considered as having obtained employment.
- The school's annual security report containing the school's security policies and crime statistics. [§668.46]

- Any other information necessary to substantiate the truth of any claims made by the school relating to job placement or salary.
  [§668.43]

### Format and Documentation Requirements

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

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

## 4.9.B Entrance Counseling

A school must ensure that entrance counseling is conducted with each student borrower who is obtaining his or her first Stafford loan for attendance at that school—unless the student previously received a Stafford, SLS, or Federal Direct Stafford loan for attendance at another school. Entrance counseling must be provided before the first disbursement of a loan is released, and may be conducted by any of the following methods:

- In-person presentation.
- Audiovisual presentation.
- Interactive electronic means.

If entrance counseling is conducted through interactive electronic means, the school must take reasonable steps to ensure that each student borrower receives the counseling materials and participates in and completes the counseling. The school must ensure that an individual with expertise in Title IV programs is reasonably available shortly after the counseling has been conducted to answer questions regarding these programs. As an alternative, the school may provide the required counseling through written materials for students enrolled in a correspondence program or a study-abroad program that the home institution approves for credit.

When counseling is conducted by another party or by interactive electronic means, the school remains responsible for ensuring that each student borrower receives the counseling materials and participates in and completes entrance counseling.

A school must ensure that information on the following subjects is provided to the student borrower during entrance counseling:

- The use of the Stafford Master Promissory Note (Stafford MPN). This may include the multi-year feature and borrower loan control points (e.g., Notification or Confirmation, cancellation or reduction of the loan amount, and revocation of the MPN). See subsection 2.2.A for more information on using an MPN.
- The seriousness and importance of the repayment obligation that the student is assuming.
- The likely consequences of default, including adverse credit reports, federal offset, and litigation.
- The obligation to repay the full amount of the Stafford loan, even if the student borrower does not complete the program, is unable to obtain employment upon completion, or is otherwise dissatisfied with or does not receive the educational or other services that the student purchased from the school (the school or the school designee must provide this information to all of the school's student borrowers except those who receive a loan made or originated by the school). The student borrower must be provided with sample monthly repayment amounts based on a range of student levels of indebtedness or on the average indebtedness of Stafford loan borrowers at the same school or in the same program of study at the same school.

To improve a student's understanding of his or her loan repayment obligation, the Department recommends that the school provide the following additional information as part of entrance counseling provided to a Stafford borrower:

- A thorough explanation of all sources of financial aid available to the student or to his or her parent(s).
- A description of the terms and conditions of each available type of aid, including loan limits, loan fees, and interest rates.

- A discussion of the school's policy on the frequency of annual loan limits.
- A strong recommendation to the student to read carefully and retain all documentation related to each of his or her loans.
- A reminder to the student to keep the lender informed of any changes to his or her name, address, telephone number, Social Security number, or enrollment status.
- A summary of the student's rights and responsibilities.
- An overview of repayment, deferment, forbearance, cancellation options and conditions, loan consolidation, and refinancing options that are available to the student.
- Information on the consequences of borrowing several education loans and of delinquency and default.
- An explanation of loan sales and the servicing of loans.
- An explanation of how the school will determine whether the student is making satisfactory academic progress (SAP).
- A detailed disclosure of the school's refund policy.
- General information on budgeting living expenses and other aspects of personal financial management.

A school must maintain a record to substantiate the school's compliance with the entrance counseling requirement for each borrower. For detailed information on entrance counseling, a school may consult 34 CFR 682.604(f) and the *Federal Student Aid Handbook*, Institutional Eligibility Reference, and Direct Loan and FFEL Programs Reference.
[§682.604(f); DCL GEN-98-25/98-G-315/98-L-211; DCL GEN-99-9]

## 4.9.C Exit Counseling

A school must ensure that exit counseling is conducted shortly before any Stafford loan borrower ceases enrollment on at least a half-time basis. The exit counseling may be conducted in person, by audiovisual presentation, or by interactive electronic means. The school must ensure that an individual with expertise in Title IV programs is reasonably available shortly after the exit counseling has been conducted to answer the student borrower's questions.

If a student borrower withdraws without the school's prior knowledge, or fails to complete the required exit counseling, the school must ensure that exit counseling is provided through interactive electronic means or by mailing written materials to the student borrower at his or her last known address within 30 days after learning that the student borrower withdrew from school or failed to complete the exit counseling as required. For a student borrower enrolled in a study-abroad program that the home institution approves for credit, or in a correspondence program, the school may, as an alternative to in-person, audiovisual, or interactive electronic means, provide written exit counseling materials by mail within 30 days after the student completes the program.

When counseling is conducted by another party or by interactive electronic means, the school remains responsible for ensuring that each student borrower receives the counseling materials and participates in and completes exit counseling.

The school must ensure that the student borrower provides the school with his or her current name, address, Social Security number, references, and driver's license number and state of issuance (if any). The school also must ensure that the student borrower provides his or her expected permanent address, the name and address of his or her expected employer (if known), and the address of his or her next of kin. The school must ensure that this information is provided to each guarantor listed in the student's records within 60 days after the student borrower provides the information.

The school must ensure the information on the following subjects is provided to the student borrower during exit counseling:

- Sample monthly repayment amounts based on a range of levels of student indebtedness or on the average indebtedness of Stafford loan borrowers at the same school or in the same program of study at the same school.
- Available repayment options including standard, graduated, extended, and income-sensitive repayment plans and loan consolidation.
- Debt-management strategies that would facilitate repayment.
- The conditions under which the student borrower may defer or forbear repayment or obtain a full or partial discharge of the loan.

- The seriousness and importance of the repayment obligation that the student has assumed.
- The likely consequences of default, including adverse credit reports, federal offset, and litigation.
- The availability of the Student Loan Ombudsman's Office.
- The use of the Stafford Master Promissory Note (Stafford MPN).
- The obligation to repay the full amount of the loan—even if the student borrower has not completed the program, is unable to obtain employment upon completion, or is otherwise dissatisfied with or does not receive the educational or other services the student purchased from the school. (The school or the school designee must provide this information to all of the school's student borrowers except those who receive a loan made or originated by the school).
- The availability of Title IV loan information in the National Student Loan Data System (NSLDS).

A school that conducts exit counseling by interactive electronic means must take reasonable steps to ensure that each student receives the counseling materials, and participates in and completes the counseling. Schools are required to maintain a record to substantiate the school's compliance with exit counseling requirements for each student.

Additional information that the Department recommends including in exit counseling can be found in the *Federal Student Aid Handbook*, Institutional Eligibility Reference, and Direct Loan and FFEL Programs Reference. [§682.604(g)]

## 4.10 Recordkeeping Requirements

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

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

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

### Program Records

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

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

### Fiscal Records

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

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

### Loan-Related Records

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

- A record of any Stafford loan Confirmation or Notification process the school used in support of the Stafford Master Promissory Note (Stafford MPN).

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

- For PLUS loans made using the common PLUS application and promissory note, a copy of the loan application—or application data, if submitted electronically to a lender or a guarantor—including the name of the borrower and the name of the student on whose behalf the loan was made.

- For loans made using either the Stafford MPN or the PLUS MPN, a copy of the loan certification—or certification data, if submitted electronically to a lender or a guarantor—including the name of the borrower, and for PLUS loans, the name of the dependent student on whose behalf the loan was made.

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

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

- The cost of attendance (COA), estimated financial assistance (EFA), and expected family contribution (EFC) used to calculate the loan amount.

- Documentation of each student or parent borrower's receipt of FFELP funds, including, but not limited to:

  – The loan amount, the payment period, and the period of enrollment for which the loan was intended.

  – The date and amount of each delivery of loan proceeds by the school to the student or parent borrower.

  – The date and amount of any refund paid to or on behalf of the student and the method by which the refund was calculated.

  – The payment of any refund to a lender or the Department.

- The Student Aid Report (SAR) or the Institutional Student Information Record (ISIR).

- Documentation of each student or parent borrower's eligibility for FFELP funds, such as documentation of need, COA, verification, enrollment status, financial aid history, satisfactory progress, etc.

- The school's receipt date for each disbursement of the loan.

- For loans disbursed to the school by copayable check, the date the school endorsed each check.

- For loans disbursed by electronic funds transfer (EFT) or by master check, the student or parent borrower's authorization to the school to transfer the initial and subsequent disbursements to the student's school account. For loans made using an MPN, the authorization for disbursement by EFT or master check on the initial or any subsequent loan is included on the MPN.

- Any required reports or forms and any records needed to verify data reported in those reports or forms.

- Documentation supporting the school's calculation of its completion and graduation rates.
  [§668.24(c) and (d)(3)(ii); §682.610; *Federal Student Aid Handbook*, Direct Loan and FFEL Programs Reference]

### Retention Period

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

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

### Media Formats

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

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

### Availability of Records

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

## 4.11 Third-Party Servicers

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

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

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

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

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

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

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

## 4.12 Quality Assurance Program

The Department may select schools for voluntary participation in a Quality Assurance Program (QAP) that provides participating schools with an alternative management approach for the administration of Title IV aid. Participation in the QAP may permit a school to develop and implement its own comprehensive system to verify student financial aid application data, and may

exempt the school from certain program and reporting requirements. The Department is given the authority to determine which schools are permitted to participate in the QAP—and to terminate schools in the QAP that do not continue to meet the requirements of the program. The Department will select schools based on the school's demonstrated institutional performance.

QAP is currently being tested at various sites.

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

## 4.13 Independent Audits

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

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

### Waiver of Annual Audit Submission

At the request of a school, the Department may waive the annual audit submission requirement if the school meets all of the following criteria:

- Is not a foreign school.
- Disbursed less than $200,000 in Title IV program funds during each of the two completed award years preceding the school's waiver request.
- Agrees to keep records relating to each award year in the unaudited period for 2 years after the end of the record retention period specified in section 4.10 for that award year.
- Has participated in Title IV programs under the same ownership for at least three award years preceding the school's waiver request.
- Is financially responsible as defined in section 4.3 and does not rely on the alternative standards of subsection 4.3.A to participate in Title IV programs.
- Is not on the reimbursement or cash monitoring system of payment.
- Has not been the subject of a limitation, suspension, fine, termination proceeding, or emergency action initiated by the Department or a guarantor in the 3 years preceding the school's waiver request.
- Has submitted its compliance audits and audited financial statements for the previous two fiscal years in accordance with and subject to subsection 4.3.A, and no individual audit disclosed liabilities exceeding $10,000.
- Submits a letter of credit equaling 10% of the amount of Title IV program funds the school disbursed to or on behalf of its students during the award year preceding the school's waiver request. This letter must remain in effect until the Department has resolved the audit covering the award years subject to the waiver.

If the Department grants the waiver, the school will not need to submit a compliance audit or audited financial statement until 6 months after one of the following:

- The end of the third fiscal year following the fiscal year for which the school last submitted a compliance audit and audited financial statement.
- The end of the second fiscal year following the fiscal year for which the school last submitted compliance and financial statement audits, if the award year in which the school will apply for recertification is part of the third fiscal year.
[§668.27]

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# 5 Borrower Eligibility


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As part of the school's processing of a borrower's loan request, the school is required to certify that the borrower, or in the case of a PLUS loan, the dependent student, is eligible for FFELP loan funds. Chapter 5 describes the borrower eligibility criteria for Federal Stafford and PLUS loans and some of the ways in which schools may obtain the information necessary to determine the borrower's eligibility.

## 5.1 Eligibility Requirements for Stafford and PLUS Loans

All recipients of Stafford and PLUS loans must meet certain eligibility criteria. This section outlines the criteria—those that apply to all students and borrowers, those that apply specifically to students and student borrowers, and those that apply specifically to parent borrowers.

### 5.1.A General Borrower and Student Eligibility Requirements

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

- The individual must be a U.S. citizen or national, or eligible noncitizen, as applicable (see subsection 5.2.A).
- The individual must provide his or her valid Social Security number (see subsection 5.2.B).
- The individual must not be in default on any federal education loan (see subsection 5.2.E for acceptable resolutions).
- The individual must not be liable for an overpayment nor have exceeded annual or aggregate limits imposed on any other Title IV program (see subsection 5.2.D).
- The individual must not have borrowed in excess of any annual or aggregate Federal Stafford loan limit (see section 6.11).
- The individual must not have been determined ineligible—solely due to the individual's error or as a result of providing false or misleading information—for a FFELP loan that has already been obtained (see subsection 5.14.A). The individual is entitled to receive an additional Stafford or PLUS loan only if he or she repays in full any ineligible loan or ineligible portion of a loan.
- The individual must not have property subject to a judgment lien for a debt owed to the United States.
- The individual must fulfill additional requirements imposed by the guarantor of a loan for which the principal and interest have been discharged or written off (see section 5.3).
- The individual must meet the guarantor's requirements with respect to state of residence or regional service area.

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

### 5.1.B Student Eligibility Requirements

In addition to meeting the requirements of subsection 5.1.A, each student who is seeking a Stafford loan—or on whose behalf a PLUS loan is being sought—must meet the following eligibility requirements:

- The student must have at least a high school diploma or the recognized equivalent of a high school diploma (see section 5.8), or meet one of the following standards:
  - The student must *(a)* be above the age of compulsory school attendance in the state in which the school is located and *(b)* pass an independently administered ability-to-benefit test that has been approved by the Department (see subsection 5.9).
  - The student must have completed a secondary school education in a home school setting that is treated as a home or private school under applicable state law.
- Each student must certify, as part of the Free Application for Federal Student Aid (FAFSA) filed with the Department, a statement of educational purpose.
  [HEA 432(m)(1)(C); HEA 484(a)(4)(A)]

- The student, if currently enrolled, must be maintaining satisfactory academic progress (SAP), as determined by the school according to federal regulations and the school's policy. (See section 8.4 for information on SAP requirements.)

- The student must not be serving in a medical internship or residency program required of doctors of medicine, osteopathy, and optometry. Students who are serving in an internship as part of any other degree program (e.g., a dental or veterinary internship) are considered eligible students for purposes of Stafford loans and PLUS loans, as applicable.
[§682.201(a)(7); DCL GEN-90-33, Q&A #16]

- Unless exempt, a male student must register with the Selective Service. A female student is exempt from the Selective Service registration requirement (see subsection 5.2.C).

- The student must not have fraudulently borrowed a loan, provided information that caused his or her loan to exceed applicable annual loan limits during an academic year, nor knowingly exceeded an aggregate loan limit for the FFELP, FDLP, or Federal Perkins Loan Program.

- The student must not have had his or her eligibility for federal student financial aid suspended when sentenced by a court due to conviction of possession or distribution of a controlled substance, under the authority of the Anti-Drug Abuse Act of 1988. Any student who applies for federal student financial aid will receive the following warning on his or her Student Aid Report (SAR): "As is more fully set forth in §5301 of the Anti-Drug Abuse Act of 1988, if you are convicted of drug distribution or possession, your eligibility for Title IV student financial aid is subject to suspension or termination." A student whose financial aid is denied because of a drug conviction will be placed on the Department's Drug Abuse Hold File at the direction of the Department of Justice. The student will receive a SAR with no calculated EFC and a comment instructing him or her to contact the U.S. Department of Education if the student wishes to contest the finding.
[§668.33; §668.36; §668.37]

- The student must not have been convicted of an offense involving the possession or sale of an illegal drug within prescribed time frames (see section 5.7).

- The student must not be incarcerated at the time funds are disbursed or delivered.

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

## 5.1.C
## Parent Borrower Eligibility Requirements

For purposes of obtaining a PLUS loan, an eligible parent borrower is a student's natural or adoptive mother or father. The spouse of a parent who remarried is eligible to borrow a PLUS loan if the spouse's income and assets would have been taken into account when calculating a dependent student's expected family contribution (EFC). Any two eligible parents may borrow separately to provide for the educational expenses of the student—provided the combined borrowing of the parents does not exceed the calculated cost of attendance (COA) minus aid.
[§668.2(b); §682.201(b)(2); DCL GEN-98-26]

To be eligible for a PLUS loan, a parent borrower must be applying for the loan to pay the postsecondary educational costs for an eligible dependent undergraduate student who is enrolled or accepted for enrollment at least half time at a participating school. A parent may not receive a PLUS loan on behalf of a student serving in such a medical internship or residency program.
[§682.201(b)]

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

Parent borrowers also must be determined creditworthy to be eligible for a PLUS loan (see subsections 7.1.B and 7.1.C).

## 5.2
## Federal Data Matches

When a student submits a completed Free Application for Federal Student Aid (FAFSA), the Department of Education assists schools in determining a student's eligibility, either as a Stafford loan borrower or as the dependent student of a PLUS borrower. The Department conducts federal data matches of the citizenship, Social Security number, Selective Service, and student financial aid overpayment or default information that the student reports or certifies on the FAFSA. The results of the data matches with the Immigration and Naturalization Service, Social Security Administration, Selective Service System, and National Student Loan Data System (NSLDS) are reported to the school and the student. For more information about confirming a student's citizenship status, Social Security number, Selective Service registration, or student financial aid overpayment or default status, see subsections 5.2.A, 5.2.B, 5.2.C, 5.2.D, and 5.2.E. Schools may also obtain more information about the Department's data matches from the *Federal Student Aid Handbook*, Student Eligibility.

## 5.2.A
## Citizenship Data Match

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

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

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

### U.S. Citizens and Nationals

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

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

- A copy of the birth certificate showing that the student or parent borrower was born in the United States.
- A Certificate of Citizenship (N-600) from the U.S. Immigration and Naturalization Service (INS), which must include at least the student or parent borrower's name and application number, the certificate number (found in the upper right-hand corner), and the date the certificate was issued.
- A Certificate of Naturalization from the INS, which must contain at least the student or parent borrower's name and petition number, the certificate number (found in the upper right-hand corner), the INS A-Number, the name of the court that granted the naturalization, and the date of naturalization.
- A Report of Birth Abroad of a Citizen of the United States (FS-240), Certificate of Birth—Foreign Service (FS-545), Certificate of Birth (DS-1350), or Freedom of Information Act Form (INS Form G-639). The first three forms are generated by the State Department and include an embossed seal with the words "United States of America" and "State Department."
- A U.S. passport (current or expired).

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

### Eligible Noncitizens

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

- A U.S. permanent resident alien with an Alien Registration Receipt Card (Form I-151 or I-551).
- A refugee with a Departure Record (I-94) from the INS showing one of the following designations (indicating that the refugee is in the United States for other than a temporary purpose):
  - Refugee
  - Asylum Granted
  - Alien paroled into the U.S. for at least one year.
  - Alien granted a stay of deportation [pursuant to 8 U.S.C. section 1253(h)] due to fear of persecution on account of race, religion, or political opinion.
  - Conditional Entrant (valid if I-94 was issued before April 1, 1980).

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

- The school determined the student or parent borrower to be an eligible noncitizen using secondary confirmation of documents provided in a previous award year, and those documents have not expired.
- The school does not have conflicting information or reason to believe that the student or parent borrower's claim of citizenship or immigration status is incorrect.

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

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

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

## 5.2.B
## Social Security Number Data Match

When a student submits a Free Application for Federal Student Aid (FAFSA), the U.S. Department of Education will conduct a data match with the Social Security Administration to verify the student's Social Security number (SSN). If the Social Security Administration confirms that SSN, the Department will notify the school and the student. If the data match fails to confirm the student's SSN, or if the school has reason to believe that the verified SSN is inaccurate, the school must give the student at least 30 days from the date the school is notified of the results of the data match, or until the end of the award year, whichever is later, to submit evidence to the school that verifies the accuracy of the SSN.

A school may neither deny, reduce, delay, nor terminate a determination of a student's eligibility for assistance under the Title IV programs if verification of the student's SSN is pending. The school may not deliver any Title IV program funds to a student until the school is satisfied that the student's reported SSN is accurate. The school must notify the Department of the student's accurate SSN if the student demonstrates the accuracy of a number other than the number that the student included on the FAFSA.

~~If the SSN has not been verified, and a FFELP loan has been guaranteed for the student, the school must instruct the lender and guarantor to cease further disbursements of the loan until the Department or the school determines that the SSN provided by the student is correct. If the student fails to verify the SSN within the preceding time frame, the school must return any FFELP loan disbursements for the student to the lender.~~
[§668.36]

See subsection 8.7.F for information regarding unverified SSNs.[1]

## 5.2.C
## Selective Service Registration Data Match

Unless exempt, a male student must register with the Selective Service. When a male student submits a Free Application for Federal Student Aid (FAFSA), the Department will conduct a data match with the Selective Service to verify the student's registration status. The Department will notify the student and the school of the results of the data match.

If the data match fails to confirm the male student's registration, the school must allow the student at least 30 days from the date the school was notified of the results of the data match or until the end of the award year, whichever is later, to submit evidence to the school that verifies either *(a)* that he is registered with the Selective Service or *(b)* that there is a valid reason why he is not required to be registered with the Selective Service. If the school receives a student's response to a failed data match after the requested loan's period of enrollment, the school would be unable to certify the loan—even if the verification documentation was received within 30 days.

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

For more information on Selective Service registration requirements, see the *Federal Student Aid Handbook* and 34 CFR 668.37.

## 5.2.D
## Prior Overpayment

A borrower is ineligible for a FFELP loan if he or she is liable for an overpayment to any Title IV program. By certifying a Stafford or PLUS loan, a school certifies that the student borrower—or the parent and student, in the case of a PLUS loan—does not, to its knowledge, owe an overpayment of $25 or more under the Federal Perkins Loan Program or under a Title IV grant program. The less-than-$25 tolerance does not apply to the remaining balance of an original overpayment amount of $25 or more that is reduced to less than $25 based on payments received. In this case, even though the remaining balance of the original overpayment is less than $25, the borrower is responsible for repaying the overpayment in full or making satisfactory arrangements to repay it before the borrower can regain Title IV eligibility.

A school must not certify a loan for a borrower who owes an overpayment of $25 or more unless one of the following occurs:

- ~~t~~The school ~~has made~~ makes an adjustment to correct the overpayment in the same award year.~~, or~~
- ~~t~~The borrower ~~either~~ repays the overpayment in full.~~ or~~
- The borrower makes satisfactory arrangements with the school or the Department for the repayment of the overpayment.

The school must retain documentation that clearly substantiates its determination that any overpayment has been resolved. Documentation stating that the reporting entity has "no record" of the student's overpayment is not considered adequate.
[§668.22(h); §668.35(e); DPL GEN-00-18][2]

## 5.2.E
## Prior Default

A prospective Stafford or PLUS loan borrower is ineligible for a FFELP loan if he or she, or the student for whom a PLUS loan is being sought, has an outstanding, unresolved default on any Title IV loan (a FFELP loan, FDLP loan, Federal Perkins loan, or Federal Insured Student Loan) obtained for attendance at any school.

In determining whether the student or parent borrower has ever defaulted on any Title IV loan, a school may rely on the information provided by the student or parent borrower during the application process and on National Student Loan Data System (NSLDS) financial aid history information, unless the school receives conflicting information. The school must reconcile all conflicting information before delivering any funds, and must retain documentation that clearly substantiates its determination

1. Policy 724 (Batch 108), approved November 20, 2003

2. Policy 705 (Batch 107), approved October 16, 2003

that the student or parent borrower's prior default was resolved. Documentation stating that the reporting entity has "no record" of the student or parent borrower's default is not considered adequate.
[§668.19; DCL GEN-96-13; DPL GEN-00-12; DPL GEN-00-18]

A student or parent borrower who has defaulted on any Title IV loan is eligible for a new FFELP loan only if each defaulted loan has been resolved in one of the following ways:

- The defaulted loan has been paid in full.
- The defaulted loan has been discharged or determined to be dischargeable in a bankruptcy action.
- The borrower's eligibility for Title IV funds has been reinstated as a result of the borrower making satisfactory repayment arrangements with the loan holder (see "Reinstatement of Title IV Eligibility after Default" later in this subsection).
- The defaulted loan has been rehabilitated as a result of the borrower's making twelve voluntary, consecutive, on-time, full monthly payments of a reasonable and affordable amount, and each loan has been purchased by a lender. For more information on loan rehabilitation, see section 12.7.
- The defaulted loan has been discharged because the student or parent borrower was unable to complete a program of study due to the school's closing.
- The defaulted loan has been discharged by the Department because the borrower's eligibility for the loan was falsely certified by the school.
- The borrower has made satisfactory repayment arrangements on the defaulted loan and consolidated that loan, or the borrower has agreed to repay a Consolidation loan under an income-sensitive repayment schedule. For more information on consolidating defaulted loans, see section 14.2.

Some guarantors have additional eligibility requirements and restrictions on Consolidation loans. These requirements are noted in appendix C.

#### Reinstatement of Title IV Eligibility after Default

A borrower with one or more defaulted Title IV loans, or defaulted Title IV loans for which a judgment has been obtained, may have his or her eligibility for Title IV aid reinstated by making satisfactory payment arrangements and fulfilling those arrangements with the holder of each defaulted loan or with the holder of each defaulted loan for which a judgment has been obtained.

A borrower who receives loan funds for which he or she is ineligible due solely to his or her error may not have Title IV eligibility reinstated until the ineligible funds are repaid in full.

To have eligibility for Title IV aid reinstated, a borrower must make six consecutive full monthly payments to the appropriate holder for each defaulted loan. These payments must be made on time (within 15 days of the payment due date), voluntarily (directly by the borrower, regardless of whether there is a judgment against the borrower), and must be reasonable and affordable. Any court-ordered payments or involuntary payments obtained by state offsets or federal Treasury offsets, wage garnishment, or income or asset execution will not count toward the six payments required for reinstatement. A lump sum prepayment of future installments does not satisfy the requirement for six consecutive monthly payments and will not reinstate a borrower's Title IV eligibility.

A borrower may reestablish Title IV eligibility only once. If a borrower has reestablished his or her eligibility and then fails to maintain satisfactory payment arrangements on that defaulted loan, or a defaulted loan for which a judgment has been obtained, the borrower may not reestablish his or her eligibility again under these provisions. An opportunity for reinstatement may be made available to a borrower regardless of whether any of the borrower's defaulted loans have been repurchased by an eligible lender.

After a borrower's Title IV eligibility is reinstated, the borrower must continue to maintain satisfactory payment arrangements on each loan that defaulted in order to continue to be eligible for additional Title IV funds. A borrower who makes satisfactory repayment arrangements on a defaulted loan will regain loan eligibility for the academic year in which the borrower satisfies the payment requirements to regain Title IV eligibility. Accordingly, the financial aid administrator may certify a loan for the entire academic year, as long as the student is otherwise eligible.

To determine whether a borrower qualifies for reinstatement of Title IV eligibility, the guarantor will review the most recent 6-month period. Each of the six required payments must be received within 15 days of the due dates for the 6 months immediately preceding the date the guarantor receives the borrower's new loan application and promissory note or request for reinstatement.

### Documentation Required to Prove Default Resolution

If the school is informed that the borrower has defaulted on a prior loan, the school must obtain, before certifying the borrower's eligibility for a new loan, documentation from the borrower or the holder of the loan that the borrower has made the required payments on any defaulted loan(s). The documentation must include a certification from the guarantor regarding each defaulted loan. The documentation must be attached to the new loan application when it is sent to the guarantor for guarantee processing, unless the information is already available to the guarantor. [§682.401(b)(4); April 1996 Supplement to DCL 96-G-287/96-L-186, Q&A #6.]

Regardless of the guarantors or programs under which the borrower defaulted, all defaults must be resolved before a new loan can be guaranteed. If the defaulted loan is with a guarantor other than the one to which the borrower is submitting a new loan request, the borrower must forward documentation that the default has been resolved (such as, a copy of the original promissory note stamped "paid in full" or a letter from the prior guarantor stating that the borrower's eligibility for Title IV funds has been reinstated). The new guarantor will review the loan request and any attachments to determine the borrower's eligibility for a new loan.
[HEA 428F(b); §668.35; §682.200; §682.401(b)(4); DCL 96-L-186/96-G-287, Q&A #6]

▲ Schools may contact individual guarantors for more information on documenting and submitting information regarding a prior loan default. See section 1.6 for contact information.

## 5.3
## Prior Loan Written Off

~~A borrower who has had a FFELP loan partially or totally written off (i.e., the lender or guarantor has stopped all collection activity on the written-off portion) must reaffirm the written-off portion of the loan before he or she is eligible to receive a new FFELP loan. Reaffirmation is the borrower's legally binding acknowledgment of a loan that has previously been totally or partially written off, and agreement to the reinstatement of his or her repayment obligation on the loan.~~

A borrower is ineligible for a FFELP loan if he or she has had a prior FFELP loan partially or totally written off (i.e., the lender or guarantor has stopped all collection activity on the written-off portion). To become eligible to receive a new FFELP loan, a borrower must reaffirm the written-off loan, provide confirmation of that reaffirmation to the school, and meet the requirements of subsection 5.2.E.

Reaffirmation is the borrower's legally binding acknowledgment of a loan repayment obligation that has been totally or partially written off and agreement to the reinstatement of the borrower's repayment obligation.[1]

The reaffirmation may include, but is not limited to, the following:

- Making a payment on the loan.
- Signing a new repayment agreement or promissory note that includes the original terms and conditions applicable to the loan being reaffirmed.

The reaffirmed amount must include all principal and interest accrued on the written-off portion of the loan through the date on which the borrower reaffirms his or her commitment to repay the loan. It may also include collection costs, late charges, and legal costs. Any outstanding charges, such as interest, collection costs, late charges, or legal costs, may be capitalized as of the date the loan is reaffirmed.
[§682.201(a)(4) and (b)(1)(vi); DCL 96-L-186/96-G-287, Q&A #4, #7, #8, #9, and #11]

## 5.4
## Prior Loan Discharge Due to Total and Permanent Disability

In some cases, loans that have been discharged due to the borrower's total and permanent disability may affect the borrower's eligibility for new loans. Eligibility may be based on the disposition of the borrower's discharge request or the date on which that request was processed.

1. Policy 713 (Batch 108), approved November 20, 2003

## 5.4.A
## Conditional Discharge of a Prior Loan Due to Total and Permanent Disability

A borrower who has received a conditional discharge of a prior loan due to an initial determination that the borrower is totally and permanently disabled must do *all of the following* to be eligible to receive a new Stafford or PLUS loan before the end of the conditional discharge period:

- Obtain a physician's statement certifying that the borrower may now engage in "substantial gainful activity." For these purposes, "substantial gainful activity" is defined as the ability to work and earn money.
  [§682.201(a)(6)(i)]

- Sign a statement acknowledging that any loan that has been conditionally discharged may not be discharged due to the same or any disability existing at the time the borrower applied for a total and permanent disability discharge or when the new loan is made, unless the disabling condition substantially deteriorates to the extent that the definition of total and permanent disability is met.
  [§682.201(a)(6)(ii); §682.201(a)(7)(ii)(A)]

- Sign a statement acknowledging that collection activity will resume on any loans in a conditional discharge period.
  [§682.201(a)(7)(ii)(B)]

The borrower's receipt of a new Stafford or PLUS loan terminates the borrower's conditional discharge, and the Department reinstates collection activities on any loan on which collection activity had been previously suspended based on an initial determination of total and permanent disability. (See subsection 12.8.E for more information regarding the total and permanent disability discharge and the glossary for the definition of "totally and permanently disabled.")
[§682.402(c)(1)(ii)(B)]

▲ Schools and lenders are strongly encouraged to contact the guarantor if assistance is needed to determine or establish a borrower's eligibility after a total and permanent disability discharge.

## 5.4.B
## Final Discharge of a Prior Loan Due to Total and Permanent Disability

A borrower who has received a discharge of a prior loan due to final determination that the borrower is totally and permanently disabled must do *all of the following* to be eligible to receive a new Stafford or PLUS loan:

- Obtain a physician's statement certifying that the borrower may now engage in "substantial gainful activity." For these purposes, "substantial gainful activity" is defined as the ability to work and earn money.
  [§682.201(a)(6)(i)]

- Sign a statement acknowledging that any new loan the borrower receives may not be discharged due to the same or any disability existing at the time the new loan is made, unless the disabling condition substantially deteriorates to the extent that the definition of total and permanent disability is met.
  [§682.201(a)(6)(ii); §682.402(c)]

- Reaffirm any loan that had been discharged due to total and permanent disability on or after July 1, 2001, but before July 1, 2002, if the borrower applies for a new loan within 3 years from the date the borrower became totally and permanently disabled, as certified by a physician. The borrower must reaffirm the previously discharged loan before receiving a new loan.
  [§682.201(a)(6)(iii)]

A borrower who has had a prior loan discharged due to total and permanent disability before July 1, 2001, is not required to reaffirm the discharged obligation. (See subsection 12.8.E for more information regarding total and permanent disability discharge and the glossary for the definition of "totally and permanently disabled.")

▲ Schools and lenders are strongly encouraged to contact the guarantor if assistance is needed to determine or establish a borrower's eligibility after a total and permanent disability discharge.

## Effect of Title IV Loan Status on Student Aid Eligibility — Figure 5-1

| Loan Status | Eligible for FFELP and Federal Perkins loans | Eligible for Federal Pell, SEOG, FWS, and LEAP |
|---|---|---|
| Defaulted | No | No |
| Written off after default | Yes[1] | Yes[1] |
| Conditional discharge due to total and permanent disability | Yes[3] | Yes |
| Final discharge due to total and permanent disability | Yes[2] | Yes |
| Paid in full after default | Yes | Yes |
| Satisfactory repayment arrangements made after default | Yes | Yes |
| Compromised after default | Yes | Yes |
| Discharged by bankruptcy or determined to be dischargeable in bankruptcy | Yes | Yes |

[1]To be eligible, the applicant must *(a)* repay each written-off loan in full or *(b)* reaffirm each Title IV loan obligation with the holder of the note that was written off and make satisfactory repayment arrangements as part of the reaffirmation (for any loan in default before the write-off).

[2]To be eligible, the applicant must *(a)* obtain a physician's statement certifying that the borrower may now engage in substantial gainful activity, and *(b)* sign a statement acknowledging that any new loan the borrower receives may not be discharged due to the same or any disability existing at the time the loan is made, unless the disabling condition substantially deteriorates to the extent that the definition of total and permanent disability is met, and *(c)* reaffirm any loan that had been discharged due to total and permanent disability on or after July 1, 2001, but before July 1, 2002, if the borrower applies for a new loan within three years from the date the borrower became totally and permanently disabled, as certified by a physician. The borrower must reaffirm the previously discharged loan before receiving a new loan.

[3]To be eligible, the applicant must *(a)* obtain a physician's statement certifying that the borrower may now engage in substantial gainful activity, and *(b)* sign a statement acknowledging that any loan that has been conditionally discharged may not be discharged due to the same or any disability existing at the time the borrower applied for a total and permanent disability discharge or when the new loan is made, unless the disabling condition substantially deteriorates to the extent that the definition of total and permanent disability is met, and *(c)* sign a statement acknowledging that collection activity will resume on any loans in a conditional discharge period.

## 5.5
## Effect of Exceeding Loan Limits on Eligibility

The school may not, under any circumstances, certify additional funds for a student who has exceeded applicable annual or aggregate loan limits. If the school determines that the student inadvertently violated the annual or aggregate loan limits, the school must give the student an opportunity to repay the excess amount before making a final determination on the student's eligibility for additional Title IV assistance. (See subsection 6.11.D)

## 5.6
## Effect of Bankruptcy on Eligibility

The Bankruptcy Reform Act of 1994 prevents a school or lender from denying a federal loan or grant to an applicant solely because he or she has filed a bankruptcy petition. Thus, a FFELP applicant is eligible for new loan funds despite the filing of a bankruptcy petition.

### Loan Certification and Professional Judgment

If the school has information about a previous or pending bankruptcy action by a Stafford or PLUS loan applicant, the school may not refuse to certify the loan if the applicant is otherwise eligible. Also, the school may not, solely because of the bankruptcy action, certify a loan for an amount that is less than the amount for which the applicant would otherwise be eligible. If circumstances other than the bankruptcy exist that would cause the school to reduce the borrower's loan amount, the financial aid administrator (FAA) may use professional judgment to refuse to certify a loan or to lower the loan amount. (See subsection 6.15.E)

### Reaffirmation

A Stafford or PLUS loan applicant who has had education loans previously discharged in bankruptcy is not required to reaffirm those loans to regain Title IV eligibility. If a borrower defaulted before the bankruptcy action was filed, and the debt has been discharged or has been determined to be dischargeable in a bankruptcy action, the borrower is eligible for additional funds without reinstatement and without reaffirming the debt.

## 5.7
## Effect of Drug Conviction on Eligibility

Students convicted of the possession or sale of an illegal drug may not be eligible for Title IV funds. [An illegal drug is a controlled substance as defined by section 102(6) of the Controlled Substance Act, and does not include alcohol and tobacco.] The Department determines the borrower's eligibility under this section based on the student's self-certification on the Free Application for Federal Student Aid (FAFSA). The school is notified of the student's eligibility on the Institutional Student Information Record (ISIR). However, if the financial aid office has conflicting information regarding a drug conviction that affects the student's eligibility, this discrepancy must be resolved.

Convictions that are reversed, set aside, or removed from the student's record, or a determination arising from a juvenile court proceeding, do not affect eligibility and do not need to be reported by the student.

A student who has been convicted of a drug-related offense will lose Title IV eligibility as follows:

- For the possession of illegal drugs:
  - 1st offense: one year from the date of conviction.
  - 2nd offense: two years from the date of the second conviction.
  - 3rd offense: indefinitely from the date of the third conviction.
- For the sale of illegal drugs:
  - 1st offense: two years from the date of conviction.
  - 2nd offense: indefinitely from the date of the second conviction.

A student may regain eligibility at any time by completing an approved drug rehabilitation program and by informing the school that he or she has done so. A drug rehabilitation program is considered approved for these purposes if it includes at least two unannounced drug tests and meets one of the following criteria:

- The program received or is qualified to receive funds directly or indirectly under a federal, state, or local government program.
- The program is administered or recognized by a federal, state, or local government agency or court.

- The program received or is qualified to receive payment directly or indirectly from a federally or state-licensed insurance company.

- The program administered or recognized by a federally or state-licensed hospital, health clinic, or medical doctor.
[§668.40]

A student who regains eligibility is eligible to receive FFELP loans for the entire period of enrollment during which eligibility is regained. However, the school may not certify eligibility prior to the date eligibility is regained. A student who loses eligibility during a period of enrollment is immediately ineligible to receive subsequent disbursements of FFELP funds and is required to repay any Title IV funds received after losing his or her eligibility. Schools are not required to recalculate a student's loan amount.

## 5.8 Required High School Diploma or Equivalent

To be eligible for FFELP funds, the borrower, or the dependent student for whom a parent seeks a PLUS loan, must have a high school diploma or its equivalent, or must receive a passing score on an approved ability-to-benefit test (see section 5.9 for more information on ability-to-benefit provisions). The following are considered equivalent to a high school diploma for establishing Title IV eligibility:

- A General Education Development (GED) Certificate—or a state certificate issued after a student passes an approved examination that the state recognizes as an equivalent to the GED.

- An academic transcript in a recognized program. A school may admit a limited number of students without high school diplomas or equivalent certificates who have excelled academically in high school and met the school's admissions standards. If such a student completes a program of at least two years that is acceptable for full credit toward a bachelor's degree, the academic transcript for that program would be considered the equivalent of a high school diploma.

## 5.9 Ability-to-Benefit Provisions

To receive Title IV assistance, a student without a high school diploma or its equivalent must demonstrate the potential to succeed in (i.e., an ability to benefit from) a program of study in a postsecondary institution. A student who is admitted on an ability-to-benefit (ATB) basis must meet one of the following requirements:

- The student takes—and achieves at least a passing score as specified by the U.S. Department of Education, on—an independently administered test that has been approved by the Department to establish (according to the Department's criteria) whether the student has the ability to benefit from the education or training being offered. The independent administrator for the ATB test must be an individual or organization that has been certified by the test publisher and has no fiscal interest in the school.

- The student obtains a passing score on a Department-approved state test or assessment.

- The student is enrolled in an eligible school that participates in a state-approved testing process that is approved by the Department.

To determine a student's eligibility to receive Title IV aid, a school may accept a passing score on an approved, properly administered ATB test if the score is received from an approved test publisher or assessment center.
[§668.32(e)(2); §668.141(a); §668.151(a)(2); §682.201(a)(8)]

A student should not be considered to have an ability to benefit if, at the time of loan certification, the student would not meet the requirements for employment in the student's state of residency in the occupation for which the student is training. The disqualifying factor may be a physical or mental condition, age, criminal record, or any other reason accepted by the Department. The school will not be held responsible for improper certification if it could not reasonably be expected to be aware of the student's disqualifying condition.
[§682.402(e)(13)]

## 5.9.A
## Testing ATB Students with Special Needs

If no test can be approved for students with disabilities or for students for whom English is not their native language or who are not fluent in English because a test is not reasonably available, the Department considers the following tests to be approved tests for purposes of assessing those students' ability to benefit:

- For the purpose of testing students with disabilities, any modified test or testing procedure or instrument that has been developed for the purpose of evaluating the ability of disabled students to benefit from postsecondary education. The test must measure both basic verbal and quantitative skills at the secondary school level.

- For the purpose of testing students for whom English is not their native language or who are not fluent in English, any test in the student's native language or a language in which the student is fluent, provided the Department has not approved another test in that language and the test was not previously rejected from the approval process by the Department. The test must measure both basic verbal and quantitative skills at the secondary school level.

The passing scores recommended by the test developer are considered passing scores by the Department provided that:

- For students with disabilities, the test administrator uses the procedures or instruments for which the test was designed, and maintains documentation of the procedures and instruments used in the testing and of the scores and scoring techniques.

- For students for whom English is not their native language or who are not fluent in English, the passing scores and the methods for determining those scores are fully documented.

## 5.9.B
## School Liability in ATB Testing

Regulations stipulate the instances in which a school will be assessed a liability based on administration of the ability-to-benefit provisions. These instances are limited to:

- Funds disbursed to students whose ability to benefit from the course was determined in a test that was provided by a test administrator that was not independent of the school at the time the test was given.

- Funds disbursed to students for whom the ATB testing process was compromised by the school in any way.

- Funds disbursed to students for whom the school is unable to document that the students received passing scores on an approved test.
  [§668.154]

## 5.10
## Student Enrollment Requirements

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

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

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

  – An eligible degree or certificate program on at least a half-time basis at a participating school approved by the Department and the guarantor (except as noted below), or the student's coursework is partially or totally offered through telecommunications subject to the limitations described in section 5.11.

  – A study-abroad program that is approved for credit by the participating school at which the student is enrolled, whether or not the study-abroad program is a required part of the student's degree program (see subsection 5.12.B).

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

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

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

- *Teacher Certification or Recertification*
  A student is exempt from the degree or certificate program requirement if he or she is enrolled at least half time in a required teacher-certification program, even though the teacher-certification program does not lead to a degree or certificate awarded by the school (for example, the certificate may instead be granted by the state). The program must be required for elementary or secondary teacher certification or recertification in the state where the student plans to teach or in the state where the student is completing the program. This exception is not intended to cover optional courses that the student elects to take for professional recognition or advancement, nor does it cover courses that the school recommends but that are not required for certification or recertification. The school should document that the courses are required by the state for teacher certification. A student who is enrolled in a teacher-certification or recertification program is considered a fifth-year undergraduate student (see section 6.11 for applicable loan limits).
  [HEA 484(b)(4); §668.32; *Federal Student Aid Handbook*, Student Eligibility]

## 5.11 Use of Telecommunications and Correspondence in Programs of Study

A student's enrollment in correspondence courses can affect his or her eligibility for Stafford loans and a parent's eligibility for PLUS loans. A student enrolled in correspondence courses is eligible to receive Title IV program assistance *only* if the correspondence courses are part of a program that leads to an associate, bachelor's, or graduate degree. A student enrolled in a telecommunications course at an institution of higher education is not considered to be enrolled in a correspondence course, if both of the following criteria apply:

- The student is enrolled in a program that leads to a certificate for a program of study of one year or longer, or to an associate, bachelor's, or graduate degree.

- The number of telecommunications and correspondence courses the school offered during its most recently completed award year was fewer than 50% of all the courses the school offered during the same year.

Telecommunications courses will not be considered correspondence courses, as noted above, only if the school offering the courses meets both of the following criteria:

- The school offered associate, bachelor's, or graduate degrees for 50% or more of its programs during its most recently completed award year.

- The school is not described in section 521(4)(C) of the Carl D. Perkins Vocational and Applied Technology Education Act.
  [§668.38]

## 5.12 Foreign Schools and Study-Abroad Programs

Students who participate in programs of study at foreign schools or in study-abroad programs sponsored by a home school that is in the United States are eligible for FFELP loan funds in certain cases.

## 5.12.A
## Study at Participating Foreign Schools

Eligible students and parents of dependent students may borrow Stafford and PLUS loans for attendance at foreign schools, provided the student—or, in the case of a PLUS loan, both the parent and the dependent student—is any one of the following:

- A U.S. citizen or national.
- A permanent resident of the United States.
- An eligible noncitizen.
  [§668.33]

Schools located in Canada and Mexico are considered foreign schools for purposes of establishing eligibility for Stafford and PLUS loans.

## 5.12.B
## Study-Abroad Programs

A student who is enrolled or accepted for enrollment in a study-abroad program that is approved by the home school at which the student is enrolled may be determined eligible to receive Stafford loan proceeds and the parent of the student may be determined eligible to receive PLUS loan proceeds—even if the study-abroad program is not required for the student's degree or certificate.
[HEA 484(o); §668.39; DCL GEN 92-21]

## 5.13
## Eligibility Requirements Specific to Transfer Students

Generally, a transfer student is eligible to receive FFELP loan funds. However, the school must assess a transfer student's eligibility for FFELP loan funds in the context of funds the student may have borrowed for previous periods of enrollment at other schools.

## 5.13.A
## Financial Aid History for Transfer Students

For mid-year transfer students applying for Title IV aid, a school must request a student's financial aid history through the Transfer Monitoring Process with the National Student Loan Data System (NSLDS). The NSLDS information will assist the school in making the eligibility determinations described in this section. Once a school has requested information from the NSLDS, it must wait for 7 days following its request to the NSLDS before delivering Stafford or PLUS loan proceeds. However, if, before the end of the 7-day period, the school receives information from the NSLDS in response to its request or obtains information itself by directly accessing the NSLDS, the school may deliver the loan proceeds as long as the student is otherwise eligible. The school may certify or decline to certify a Stafford or PLUS loan before it receives or accesses updated information from the NSLDS.

A school is not required to respond to a request for a paper financial aid transcript for either a current-year or prior-year transfer student unless it is a request to report assistance that a student has received through the Department of Health and Human Services. See section 8.7 for more information on delivery restrictions for transfer students.
[DPL GEN-00-12; DPL GEN-01-09; *Federal Student Aid Handbook*, Student Eligibility]

## 5.13.B
## Students Who Transfer after Full Disbursement of the Loan

If a student transfers to another school after receiving all disbursements of a loan made for attendance at the previous school, the student or parent borrower is generally not eligible to receive a second loan during the same period of enrollment. An exception to this policy is made if one of the following conditions exists:

- The borrower did not receive the maximum loan amount for which he or she is eligible, in which case the borrower may receive up to the remaining eligibility to pay for cost of attendance (COA) at the new school.
- The student's first school returned funds for the student, in which case the borrower may receive up to the amount of the returned funds plus any remaining eligibility. The lender must report the returned funds to the guarantor so that a subsequent loan may be guaranteed.
- The student advances to a higher grade level and, as a result of the grade level advancement, becomes eligible for additional Stafford loan funds.

## 5.14
## Ineligible Borrowers

A student for whom a Stafford or PLUS loan has been guaranteed is considered ineligible to receive the loan proceeds if any of the following occurs:

- The borrower or student provided false or erroneous information.
- The borrower or student did not qualify for all or a portion of the loan (see section 5.1 for information regarding eligibility requirements).
- The borrower received federal interest benefits on a subsidized Stafford loan for which the borrower did not qualify.
- The student withdrew prior to the first day of classes, or was expelled prior to the first day of classes, or failed to attend classes, and the borrower did not repay loan proceeds received to either the school or the lender.

When a lender discovers or is notified by a school or guarantor at any time that a borrower was ineligible for any portion of a loan, the lender, in conjunction with the school and/or guarantor must determine which party was responsible for the error: the borrower, the school, or the lender.

### 5.14.A
### Ineligibility Based on Borrower Error

In some situations, a borrower is considered ineligible for a loan due solely to his or her own error. The key factor in determining whether the borrower is solely responsible for his or her ineligibility is whether the borrower provided false or incorrect information in the loan application process or acted in a way that caused the borrower to be ineligible for the loan.

Examples of situations in which a borrower is considered solely responsible for his or her ineligibility include, but are not limited to:

- Funds are delivered to a student or parent during the 10-day period prior to the first day of the first payment period in a period of enrollment, but the student never attends classes, or withdraws, or is expelled prior to the first day of the first payment period and fails to pay those funds to the school or repay the funds to the lender.
- A borrower misrepresents his or her eligibility for a loan. Examples of such misrepresentation are the misreporting of family size, income, or student or borrower default status.

If a school delivers loan funds to or on behalf of an otherwise eligible borrower during the 10-day period prior to the first day of a second or subsequent payment period, and the student does not attend any classes in the second or subsequent payment period, or withdraws, or is expelled prior to the first day of the second or subsequent payment period, the school must determine whether the borrower was eligible to receive the funds. If the school determines that the borrower was ineligible for the loan funds, the school must notify the lender of the borrower's receipt of ineligible funds (see subsection 11.4.F for lender servicing requirements for ineligible loans). If the borrower was eligible for the funds, the school must adhere to the applicable requirements for the return of Title IV funds (see section 4.7). The school will not be assessed any liability for delivering loan funds in this instance unless the school knew or should have known that the borrower was ineligible to receive the funds at the time they were delivered.

When a borrower is solely responsible for his or her ineligibility, the borrower is not eligible for interest benefits, an in-school or grace period, or deferment on these ineligible funds. Additionally, the borrower may not obtain a Consolidation loan or rehabilitate ineligible loan funds, and may not have his or her Title IV eligibility reinstated by making satisfactory repayment arrangements on an ineligible amount. The borrower must fully repay the ineligible funds to regain Title IV eligibility.

If it is determined that the borrower is *solely* responsible for the ineligibility of the funds, the lender must immediately mail the borrower a final demand letter and follow the ineligible borrower due diligence requirements outlined in subsection 11.4.F.
[§682.208(f)]

## 5.14.B
## Ineligibility Based on School Error

In some cases, a borrower may receive loan funds for which he or she is ineligible due to a school error. These errors may include, but are not limited to:

- The school delivers funds to a borrower who has not maintained eligibility.
- The school certifies and delivers loan funds in excess of the borrower's eligibility.
- The school certifies and delivers loan funds to an ineligible borrower (for example, a borrower in default on another Title IV loan).
- The student fails to enroll in a course leading to a degree or certificate, and the course in which the student enrolls is not required for teacher recertification in the state in which the school is located.

If the lender discovers that a borrower received a loan, or portion of a loan, for which the borrower is ineligible because of a school error, the lender should contact the guarantor. The lender must continue to service the loan in accordance with regulatory requirements. The guarantor will investigate the case and, if necessary, require the school to purchase any ineligible portion of the loan from the lender and repay any interest and special allowance paid by the Department.

If a borrower misrepresents or misreports information that the school is required to verify, and the school fails to verify the information, resulting in the borrower's receipt of funds for which he or she is ineligible, the ineligibility must be considered a school error regardless of any error made by the borrower. In this situation the school must repay the ineligible amount to the lender. The amount paid to the lender must include the ineligible amount disbursed plus any outstanding accrued interest due to the lender, but must not include any payment or prepayment made by the borrower prior to the date the school repays the ineligible funds. The school also must pay to the Department all interest and special allowance benefits paid to the lender from the date of disbursement to the date the school repays the funds. If the school refunds the interest and special allowance to the lender, the lender must make an appropriate adjustment on its next quarterly ED Form 799.

Until the school repays the lender, the lender must continue to service the loan as an eligible FFELP loan. If the school is required to repay the entire loan amount, the school may request that the lender assign the loan to the school at the time the school returns the ineligible loan funds to the lender.

If the loan is assigned to the school, the loan becomes a legal obligation between the school and the borrower. The borrower remains eligible for benefits identified in the promissory note, including deferment and various repayment options; however, the school is prohibited from billing the Department for any interest benefits or special allowance payments, and the loan is no longer insured by the guarantor. The borrower then repays to the school all funds delivered based on the terms of the promissory note.

## 5.14.C
## Ineligibility Based on Lender Error

If the borrower receives funds for which he or she is not eligible due to a lender error, the lender may not bill the Department for interest or special allowance on the ineligible portion of the loan, and must refund to the Department any such amounts already paid. The ineligible portion of the loan is not insured by the guarantor. However, the borrower remains eligible for all benefits identified in the promissory note, including deferment and various repayment options.

An example of ineligibility due to lender error is the disbursement of funds to a student attending a foreign institution when the lender has received information, prior to the disbursement of such funds, that the student is no longer enrolled at least half time.

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The school plays a key role in determining the amount of funds for which the student or borrower is eligible, whether those funds should be subsidized, and how the funds should be disbursed. The school provides this information to the lender and guarantor via its certification of the loan, either in a paper or electronic format. Chapter 6 describes the data a school is required to obtain or calculate and the certifications it must make to fulfill its role in the origination of a student's FFELP loan.

## 6.1 Defining an Academic Year

To determine and certify the appropriate loan amount, the school must first define the academic year for which the funds are intended. An academic year is a period of at least 30 weeks of instructional time that begins on the first day of classes and ends on the last day of classes or examinations. During this period, a full-time undergraduate student would be expected to complete a minimum of 24 semester or trimester hours, or 36 quarter hours. For a school measuring academic progress in clock hours, the student would be expected to complete at least 900 clock hours of instructional time.

Graduate and professional programs must comply with the 30-week minimum period. In addition, a school is expected to establish academic standards to determine the amount of work that a full-time graduate or professional student should complete within an academic year.

A school may define an academic year that is longer than 30 weeks. In some cases, the school may define an academic year that is shorter than the required 30 weeks. A shorter period may be approved by the Department if the following criteria are met:

- The program results in a two-year associate degree or four-year bachelor's degree.
- The school obtains the approval of its accrediting agency and state licensing agency for the reduced academic year.
- The school submits a written request to the Department for a reduced academic year that is not less than 26 weeks. The request must include information identifying the program to which the reduced year will be applied and the number of weeks that will be included in the proposed reduced year. The school must demonstrate good cause for the requested reduction and provide any other information requested by the Department.
  [§668.3(c)(2)]

If the Department approves the reduced academic year, that approval terminates when the school's Program Participation Agreement expires. The school may request an extension of the approval as part of the re-certification process.
[§668.3(c)(3)]

Typically, there are two categories of academic year:

- A scheduled academic year (SAY) is ~~one~~ a "fixed" academic period ~~in which~~ as published in a ~~the~~ school's printed materials that generally ~~term~~ begins and ends at about the same time each year according to an established schedule. The year begins on the first day of classes~~,~~ and ends on the last day of classes or examinations~~, and meets the statutory definition of an academic year~~.
- A borrower-based academic year (BBAY) is an academic year ~~at a school without standard terms. The student must complete the required number of clock or credit hours before the school may advance the borrower's grade level. A BBAY~~ that begins with a student's start date and tracks the student's progress until the required number of weeks and credit or clock hours have been completed. ~~Schools with scheduled academic years also may make academic year determinations based on a BBAY.~~

Both the SAY and BBAY must meet the statutory requirements of an academic year as defined by the Department. Schools with clock-hour and non-term-based credit-hour programs must use a BBAY. Schools with term-based, credit-hour programs may use either a SAY or a BBAY.

### Term-Based, Credit-Hour Programs

A school with term-based, credit-hour programs using a SAY must designate the summer term as either a "leader" (precedes the academic year) or a "trailer" (follows the academic year). The school has the following options:

- The school may consistently designate the summer term as either a leader or a trailer with no exceptions.
- The school may consistently designate the summer term as either a leader or a trailer with some exceptions that are determined by the school on a case-by-case basis.[1]

1. Policy 719 (Batch 108), approved November 20, 2003

- The school may make all decisions regarding the use of the summer term as a leader or trailer on a case-by-case basis.

If a BBAY is used, the school must include the same number of terms in the BBAY as it includes in its SAY. Mini-sessions (summer or otherwise) must be combined and treated as a single term. The borrower is not required to attend the entire BBAY but the loan period must coincide with the student's attendance. The BBAY must begin with a term in which the student actually is enrolled but may include a term in which the student is not enrolled.

A school may use a BBAY for all students, for students enrolled in certain programs, or on a student-by-student basis. The school may also alternate between a BBAY and a SAY for the same student. However the school must ensure that it does not establish overlapping academic years for a student.

### Clock-Hour and Non-Term-Based Credit-Hour Programs

At a school with clock-hour or non-term-based credit hour programs, the BBAY begins when the student enrolls and does not end until the student completes both the required number of weeks and the required number of clock or credit hours in the academic year. A student who does not attend on a full-time basis will take longer to complete the academic year than a full-time student.

These types of programs frequently allow a student to complete the program at his or her own pace. As a result one student may complete 900 clock hours in 28 weeks while another may complete 900 clock hours in 32 weeks. If the average student completes the program in 30 weeks, the school is not required to pro-rate the loan amount for the occasional student who completes the program in less than 30 weeks.

### Transfer Students

If a student borrows Stafford funds to attend one school and then transfers to a new school, the new school is not permitted to certify a loan until it determines whether the student's new loan period will overlap with the loan period at the prior school. This requires the new school to determine the student's academic year at the prior school. The school may use either of the following methods to make this determination.

- Obtain documentation from the prior school about its academic year.
- Make assumptions about the prior school's academic year based on information obtained from the National Student Loan Data System (NSLDS). Schools that use this method must determine that the academic year at the prior school ended on the *later* of the following:
  - 30 weeks after the first day of the most recent loan period listed.
  - The end date of the loan period for all loans made in the academic year.

If the loan periods overlap, the new school must subtract the gross amount of the loan (less any refunds or cancellations for that loan period) that the student received at the prior school from the student's current annual loan limit to determine the amount that the student is eligible to borrow. If the loan periods do not overlap, the new school may process a loan up to the amount of the student's current annual loan limit.[1]

1. Policy 719 (Batch 108), approved November 20, 2003

## Statutory Definition of an Academic Year — Figure 6-1

| Method used to measure academic progress | Number of hours a student enrolled full time is expected to complete in a full academic year | Minimum Instructional Time Requirement |
|---|---|---|
| Semester hours | 24 semester hours | 30 weeks |
| Trimester hours | 24 trimester hours | 30 weeks |
| Quarter hours | 36 quarter hours | 30 weeks |
| Clock hours | 900 clock hours | 30 weeks |

Adapted from: *Trainee Guide: 1995-96 Delivery System Training Workshop, U*.S. Department of Education, December 22, 1994, page TG2-23.

## Frequency of Stafford Annual Loan Limits — Figure 6-2

| | Scheduled Academic Year (SAY) | Borrower-Based Academic Year (BBAY) |
|---|---|---|
| **Term-Based Programs** | Academic year begins at approximately the same time each calendar year<br><br>School must use a SAY that meets the statutory requirements of an academic year<br><br>Loan period may not always include all terms in SAY<br><br>Borrower always regains eligibility at beginning of SAY<br><br>All loans borrowed during SAY must be within annual limit for student's grade level<br><br>After original loan, additional loans are permissible if<br>• Student has remaining eligibility, or<br>• Student progresses to the next grade level<br><br>Summer term may be "leader" or "trailer" to the SAY, per<br>• Strict policy<br>• By program<br>• Case by case<br><br>Mini sessions may be treated as a single term or individual terms assigned to different SAYs | Academic year floats with student's enrollment<br><br>School may use if SAY is at least 30 weeks<br><br>All loans borrowed during BBAY must be within annual loan limit for the student's grade level<br><br>After original loan, additional loans are permissible if:<br>• Student has remaining eligibility, or<br>• Student progresses to a grade level with a higher annual loan limit<br><br>Length of BBAY must equal number of terms in SAY, not including summer trailer or leader<br>• Number of hours/weeks in BBAY need not meet 30-week minimum if BBAY includes a summer term<br>• BBAY begins with term in which student actually enrolls<br>• BBAY may include terms student does not attend, if student could have enrolled at least half time<br><br>School may use BBAY for<br>• All students<br>• Certain programs<br>• Certain students<br><br>Mini-sessions must be treated as a single term and student need not enroll in all mini-sessions, but must have been ~~able~~ given the opportunity by the school to enroll in all at least half time<br><br>May alternate SAY and BBAY for a student if no overlap of academic years |
| **Non-Term-Based Programs** | Not applicable | BBAY must meet the minimum statutory requirements or equivalent<br><br>Student may not borrow additional loan for progress to next grade level until the student completes both the minimum number of weeks and credit/clock hours in an academic year |

Adapted from: *Trainee Guide: ~~1995-96 Delivery System~~ 1997-98 Title IV Training Workshop*, U.S. Department of Education, January 21, 1997, ~~December 22, 1994,~~ pages TG 8-42~~5-30~~.[1]

1. Policy 719 (Batch 108), approved November 20, 2003

## 6.2
## Determining the Period of Enrollment

The period of enrollment for which a school may certify a loan is generally an academic year or "loan period." The period of enrollment is the period for which a Stafford or PLUS loan is intended. The period of enrollment must coincide with a bona fide academic term established by the school for which school charges are generally assessed (i.e., semester, trimester, quarter, length of the student's program, or the school's academic year).

The minimum period of enrollment for which a school may certify a loan is:

- For schools that measure academic progress in credit hours and use a semester, trimester, or quarter system, an academic term (e.g., a semester or quarter).
- For schools that measure academic progress in clock hours (or in credit hours, but that do not use a semester, trimester, or quarter system), the length of the student's program at the school, the school's academic year, or the student's remaining period of enrollment for the program of study at the school, whichever is less.

The maximum period of enrollment for which a school may certify a loan is 12 months.

#### Defaulted Borrowers

The maximum period of enrollment for which the school may certify a loan for a defaulted borrower whose eligibility to borrow FFELP loans has been reinstated during the current academic year (see subsection 5.2.E) is the academic year during which the borrower regained eligibility, unless the borrower is not eligible for other reasons.

## 6.3
## Determining Payment Periods

The payment period is the basis on which a school must schedule and deliver disbursements for a particular loan period. The payment period begins on the first day of regularly scheduled classes. A payment period is determined by the structure of the school's academic program. At a school that does not use standard terms, a payment period is measured in credit or clock hours completed by the student in relation to the length of the student's program of study.

### 6.3.A
### Number of Payment Periods

A school may choose to have more than two payment periods in the academic year. In that case, the number of payment periods must correspond to portions of the academic year. For example, if a school chooses to have three payment periods, each payment period must correspond to one third of the academic year. If three payment periods are used and the program or its remaining portion is more than one third, but less than two thirds of the academic year, two payments are required, with each payment period covering one half of the remaining portion. If the remaining portion is greater than two thirds of the academic year, but less than one academic year, three payments are required, each covering one third of the remaining portion. (See section 8.7 for information on loan delivery requirements during payment periods.)
[§668.4(d)]

### 6.3.B
### Term-Based Credit-Hour Programs

For an eligible program that measures progress in credit hours and has academic terms, the payment period is the academic term (semester, trimester, quarter, or nonstandard term).
[§668.4(a)]

### 6.3.C
### Standard Term-Based Programs Offered in Modules

For an eligible program that combines a series of modules into a semester, trimester, or quarter and measures progress in credit hours, the payment period includes all of the modules the student was scheduled to attend in the

semester, trimester, or quarter beginning with the module that included the student's first day of attendance. The following criteria apply to programs offered in modules:

- Some or all of the courses in the program are offered in modules that are scheduled sequentially rather than concurrently. (The modules may overlap.)
- Two or more modules make up a standard term at the institution (e.g., a 12-week term is offered in three 4-week modules).
- A student may begin his or her program of study at the beginning of any module in the term.
- A student may skip one or more modules in the term.
- A student must enroll up front in all modules he or she plans to attend within the term, although he or she may subsequently add or drop a course.

## 6.3.D Non-Term-Based Credit-Hour Programs

For an eligible program that measures progress in credit hours and does not have academic terms, the payment period varies, depending on the length of the program.

For an eligible program that is one academic year or less in length, the following applies:

- The first payment period is the period of time in which the student completes half the number of credit hours *and* half the number of weeks in the academic year or program.
- The second payment period is the period of time in which the student completes the remainder of the academic year or program.

For an eligible program that is more than one academic year in length, the following applies for the first academic year and any subsequent full academic year:

- The first payment period is the period of time in which the student completes half the number of credit hours *and* half the number of weeks in the academic year.
- The second payment period is the period of time in which the student completes the remainder of the academic year.

For any remaining portion of an eligible program that is more than one half an academic year in length, but less than a complete academic year, the following applies:

- The first payment period is the period of time in which a student completes half the number of credit hours and half the number of weeks remaining in the program.
- The second payment period is the period of time in which the student completes the remainder of the program.

For any remaining portion of an eligible program that is not more than one half an academic year, the payment period is the remainder of that program.
[§668.4(b)]

If an institution is unable to determine when a student has completed half the credit hours in a program, academic year, or the remainder of a program, the student is considered to begin the second payment period of the program, academic year, or remainder of a program at the later of:

- The date, as determined by the school, that the student has completed one half of the academic coursework in the program, academic year, or remainder of the program.
- The calendar midpoint between the first and last scheduled days of class of the program, academic year, or remainder of the program.
  [§668.4(b)(3)]

## 6.3.E Clock-Hour Programs

For an eligible program that is one academic year or less in length, the following applies:

- The first payment period is the period of time in which the student completes half the number of clock hours in the academic year or program.
- The second payment period is the period of time in which the student completes the remaining number of clock hours in the academic year or program.

For an eligible program that is more than one academic year in length, for the first academic year and any subsequent full academic year, the following applies:

- The first payment period is the period of time in which the student completes half the number of clock hours in the academic year.

- The second payment period is the period of time in which the student completes the remaining number of clock hours in the academic year.

For any remaining portion of an eligible program that is more than one half an academic year, but less than a full academic year in length, the following applies:

- The first payment period is the period of time in which the student completes half the number of clock hours in the program.

- The second payment period is the period of time in which the student completes the remaining number of clock hours in the program.

For any remaining portion of an eligible program that is not more than one half of an academic year, the payment period is the remainder of the program.
[§668.4(c)]

## 6.3.F
## Students Returning to a Non-Term Credit-Hour or Clock-Hour Program after a Withdrawal

If a student withdraws from a program but re-enters that same program within 180 days, the school is required to place the student in the same payment period in which the student was originally enrolled when the withdrawal occurred. The student is again eligible to receive any loan funds for which he or she was eligible prior to the withdrawal, including any funds that may have been returned by the school or student as part of the return of Title IV funds process.

If, however, a student returns to the same program after 180 days or, at any time, either transfers into a different program at the same school or enrolls in another school, the applicable school must calculate a new payment period for the remainder of the student's program based on how program progress is measured. For purposes of calculating payment periods only, the length of the program is the number of credit hours and the number of weeks, or the number of clock hours, that the student has remaining in the program he or she entered or re-entered. If the remaining hours (and weeks, if applicable) constitute one half of an academic year or less, the remaining hours constitute one payment period.
[§668.4(e) and (f)]

## 6.4
## Determining the Disbursement Schedule

Federal regulations require a school to specify a disbursement schedule that provides for disbursements to be made on a payment-period basis for each Stafford and PLUS loan it certifies. The school, or a guarantor acting on behalf of the school, may subsequently modify that schedule. The school may delegate its responsibility for assigning disbursement dates to a guarantor with whom it participates.

A school should attempt to assign disbursement dates with which the lender may reasonably comply. The school should not specify a disbursement date that will likely pass before the loan is guaranteed. An expired disbursement date may result in delayed processing of the loan.

In establishing the disbursement schedule, a school must allow for necessary mail and processing time. The school should provide the dates on which it would expect the lender to issue the check or master check or generate the EFT transaction—not the date on which the school anticipates receiving the funds. In addition, the school must schedule disbursement dates that comply with applicable delivery requirements. For more information on delivery requirements, see section 8.7.

The requirement that disbursements be made on a payment-period basis (see section 6.3 for information regarding payment periods) does not eliminate any applicable multiple disbursement requirement (see subsection 6.4.A) for a school to deliver loan proceeds in substantially equal installments, with no installment exceeding one half of the loan amount. See subsection 6.4.A for information about multiple disbursement and section 8.7 for information about proportional disbursement and special delivery requirements for programs with nonstandard terms.

## 6.4.A
## Multiple Disbursements and Exceptions

The school must establish a disbursement schedule that ensures that a Stafford or PLUS loan is disbursed in two or more installments, regardless of the loan amount—except in the following cases:

- A loan made to a student attending a participating foreign school may be scheduled for a single disbursement.

- A loan made to a student enrolled in a study-abroad program, if the eligible school at which the student will receive course credit for the study-abroad program has a cohort default rate of less than 5%, may be scheduled for a single disbursement.
  [HEA 428G(e); §682.604(c)(10)(iii)]

  A school must cease to certify loans based upon this exception no later than 30 days after the date it receives notice from the Department of a FFELP cohort default rate, FDLP cohort rate, or dual-program cohort default rate that causes the school to no longer meet the necessary qualifications.
  [§682.603(g)]

## 6.4.B
## When Disbursements May Be Made

For a Stafford loan disbursed by EFT or master check, the earliest date for which a first disbursement may be scheduled is:

- The 28th day of the first payment period if the student is a first-year undergraduate, first-time borrower and the school is subject to delayed delivery provisions for such students.

- 13 days before the first day of the first payment period for all other borrowers, including first-year undergraduate first-time borrowers at schools not subject to delayed delivery.

For a Stafford loan disbursed by individual check, the earliest date for which a first disbursement may be scheduled is:

- The first day of the first payment period if the student is a first-year undergraduate, first-time borrower and the school is subject to delayed delivery provisions for such students.

- 30 days before the first day of the first payment period for all other borrowers, including first-year undergraduate first-time borrowers at schools not subject to delayed delivery.

For a PLUS loan, the earliest date for which a first disbursement may be scheduled is:

- 13 days before the first day of the first payment period for a loan disbursed by EFT or master check.

- 30 days before the first day of the first payment period for a loan disbursed by individual check.

If the loan period for a Stafford or PLUS loan consists of one payment period, the school must schedule the second or subsequent disbursement so that the disbursement is delivered no earlier than the calendar midpoint between the first and last scheduled days of class of the loan period. If the loan period for a Stafford or PLUS loan consists of more than one payment period, the earliest date for which a second or subsequent disbursement may be scheduled is:

- 13 days before the first day of any subsequent payment period for a loan disbursed by EFT or master check.

- 30 days before the first day of any subsequent payment period for a loan disbursed by individual check.

If the first disbursement would occur on or after the date on which the second or subsequent disbursement could be made, the first and second disbursements, or the first and subsequent disbursements, may be combined (see subsection 7.7.A.).
[§668.167(a); §682.207(b) and (c); §682.603(i); §682.604(c)(6)(ii)]

## First Disbursement Timeline

**Figure 6-3**

**Standard Disbursement**

**Delayed Disbursement**

(for first-year, first-time undergraduate Stafford borrowers attending schools subject to delayed delivery provisions)

A school may request the first disbursement (Stafford or PLUS loan) of an individual check up to 30 days before the first day of the first payment period.

**30 days before**

A school may request the first disbursement (Stafford or PLUS loan) of an EFT or master check disbursement up to 13 days before the first day of the first payment period.

**13 days before**

**First Day of First Payment Period**

A school may request the first disbursement of an individual check no earlier than the first day of the first payment period

**28th day of first payment period**

A school may request the first disbursement of an EFT or master check disbursement no earlier than the 28th day of the first payment period

## 6.5
## Determining the Student's Cost of Attendance (COA)

In order for a school to certify a borrower's Stafford or PLUS loan, it must determine the loan amount the borrower is eligible to receive. The first factor in this determination is the student's cost of attendance (COA). A student's COA for a loan period includes tuition and fees applicable to the student's attendance. The COA also must include the school's estimate of other expenses reasonably related to attendance at that school, including origination and guarantee fees associated with each Stafford or PLUS loan for which the student or parent borrower is applying. The COA must include only those costs already incurred, or expected to be incurred, by the student over the course of the loan period. It may not include outstanding charges or fees from a previous period of enrollment.

If a school requires the student to pay the tuition and fees for an entire program at the time of initial enrollment in the program, the school must include these total charges in the COA.

A tuition and fee charge may be included in the COA only if that charge is actually made to the student and is paid by or on behalf of the student, including payments made by some form of student financial assistance. To determine if a charge should be used for Title IV purposes, determine if the student would be required to pay the charge if it were not paid by another source. The school's audit trail must show that actual funds were used to pay all tuition and fee charges. The amount due may not be "written off." If a waiver of tuition and fees is treated as a payment of tuition and fees actually charged to the student by the school, the payment would be considered to be a financial aid resource and the COA calculation would include the full amount of tuition and fees.
[*Federal Student Aid Handbook,* Student Eligibility Reference, DCL GEN-00-24]

## 6.5.A
## COA Components

A student's COA for a period of enrollment is comprised of the following, as applicable:

- Tuition and fee charges normally assessed a student with the same academic workload—including costs for the rental or purchase of equipment, materials, or supplies required of all students in the same course of study.
- A room and board allowance, as follows:
  - For a student without dependents who lives at home with parents, the school determines the allowance.
  - For a student without dependents who lives in institutionally owned or operated housing, the school determines a standard allowance based on the amount normally assessed most residents for such housing.
  - For all other students, the school must include an allowance based on reasonably incurred expenses for room and board.
- An allowance for books, supplies, transportation, and miscellaneous personal expenses, as determined by the school. A reasonable amount for the documented rental or purchase of a personal computer may be included as part of this allowance.
- For an independent student with one or more dependents, an allowance for dependent care. This allowance is based on the estimated expenses incurred (during periods that include class time, study time, field work, internships, and commuting time for the student) based on the number and age of the dependents—not to exceed the reasonable cost in the community for the type of care provided.
- For a physically or intellectually challenged student, an allowance for expenses related to the student's special needs. Expenses may be included for special services, personal assistance, transportation, equipment, and supplies—provided they are reasonably incurred and the services are not provided by other agencies.
- For a student participating in a study-abroad program, reasonable costs for that program—provided the program is approved for credit by the student's home institution.
- For a student working as part of a cooperative education program, an allowance for reasonable costs associated with such employment.
- Origination and guarantee fees associated with each Stafford or PLUS loan for which the student or parent borrower has applied.

## 6.5.B
## COA Exceptions for Correspondence and Telecommunications Study

Generally, the COA for a correspondence study student may include only tuition and fees. However, if the student is fulfilling a required period of residential training, the COA may include required books, supplies, travel, and specific room and board costs incurred.

The COA for a student receiving instruction via telecommunications (see definition in section 5.11) may include the documented cost of renting or purchasing equipment required to accommodate the study.

For a program of study in which telecommunications are used to deliver to students any course that is also delivered in person to other students at the school, a financial aid administrator (FAA) at the school must use professional judgment to determine whether the use of telecommunications would result in a substantially reduced COA. If the COA would be substantially reduced, the FAA must reduce the student's eligibility for grants, loans, or work-study assistance.

For these purposes, telecommunications is defined as the use of television, audio, or computer transmission—including open broadcast, closed circuit, cable, microwave, satellite, audio conferencing, computer conferencing, or video cassettes or discs.
[HEA 484(l); §668.38; DCL GEN 92-21]

## 6.5.C
## COA Documentation Requirements

Federal regulations require that the data used to construct a student's budget for COA purposes, or the school's itemized standard budget for COA purposes, be made part of the school's records and be available for review. See section 4.10 for school record retention requirements.
[HEA 472; §668.24; §682.610(b)]

## 6.5.D
## Use of Professional Judgment to Determine COA

A financial aid administrator (FAA) is permitted to increase or decrease a student's cost of attendance (COA) based on extenuating circumstances. Alterations must be documented in the student's file.

In determining whether a student has extenuating circumstances, an FAA may request and use additional information concerning the financial status or personal circumstances of a student or the student's family.
[DCL GEN-92-21; *Federal Student Aid Handbook*, Student Eligibility]

## 6.6
## Determining the Expected Family Contribution (EFC)

Another factor that a school uses in the determination of the amount and type of loan funds a borrower is eligible to receive is the expected family contribution (EFC). The EFC is the amount a student and his or her family are expected to pay for education expenses and it is determined by the financial information provided by the student and parent(s) on the Free Application for Federal Student Aid (FAFSA).

The data provided on the FAFSA is processed using a federally prescribed need analysis formula to derive the EFC. The calculation is performed by the Central Processing System (CPS) contractor selected by the Department. The EFC figure is sent to the school on a need analysis output document and is used by the school to determine the student's eligibility for a Stafford loan.

When calculating eligibility for a subsidized Stafford loan, a school may offset all or any portion of the student's EFC with any PLUS loan, unsubsidized Stafford loan, or other education loan obtained for the period of enrollment.

## 6.6.A
## Performing Verification Requirements

A school may require a student financial aid applicant to document the data used in determining a student's expected family contribution (EFC). A school is required to use such documentation to verify the EFC if the student aid applicant is selected by the Central Processing System (CPS) according to criteria established by the Department, or if the school has reason to believe that any information provided on the Free Application for Federal Student Aid (FAFSA) is incorrect.

A school must develop and apply an adequate system to identify and resolve discrepancies in the information provided by the aid applicant. The school must reconcile all conflicting information before disbursing any funds, whether or not the student's application was selected for verification. It is the school's responsibility to ensure compliance with federal requirements and verification procedures. For more information on verification, schools

should refer to federal regulations and the Department's most recent *Application and Verification Guide*.
[§668, Subpart E; *Application and Verification Guide*]

#### Verification Exemptions

Unless the school has reason to believe that the information provided in the application is incorrect, verification is not required if the student has no need—even if the student's aid application is selected for verification. PLUS borrowers are not subject to verification, although PLUS loan eligibility may be affected by the verification process.

Foreign schools are exempt from verification requirements with respect to a Stafford or PLUS loan applicant's financial information. Other schools also may be exempt from certain verification requirements if they are participating in the Department's Quality Assurance Program (see section 4.12).

#### Certification and Verification

If an applicant is selected for verification and the school believes that the information provided on the FAFSA is correct, it may certify a loan, but may not release loan proceeds before the verification process is complete. If verification is not completed within 45 days from the date the school receives the loan proceeds, the school must return the proceeds to the lender promptly, but no later than 10 business days after the last day of the 45-day period.

If, during the 10-business-day return period, the verification process is completed, the school may deliver the proceeds rather than return them to the lender, provided the delivery is made on or before the last day of the return period. For more information on delivery requirements, see section 8.7.
[§668.58; §668.167(b); Department of Education Policy Bulletin dated June 2, 1997]

#### Change to EFC

If the EFC used in certifying a FFELP loan changes as a result of the verification process, the school must make the necessary corrections and any resulting adjustments to the borrower's loan eligibility. No tolerance is permitted on a FFELP loan when determining whether a loan should be decreased. The school is responsible for eliminating any overaward resulting from corrections necessitated by the verification process (see section 8.6).

## 6.6.B
## Use of Professional Judgment to Determine EFC

A financial aid administrator (FAA) is permitted to increase or decrease a student's expected family contribution (EFC) based on extenuating circumstances. In adjusting the EFC, the FAA must adjust a specific data element within the calculation. Alterations must be documented in the student's file.

In determining whether a student has extenuating circumstances, an FAA may request and use additional information concerning the financial status or personal circumstances of a student or the student's family.
[DCL GEN-92-21; *Federal Student Aid Handbook*, Student Eligibility]

## 6.7
## Determining the Amount of Estimated Financial Assistance (EFA)

As part of the loan certification process, the school must determine the estimated financial assistance (EFA) the student may receive from other sources. To determine the amount and type of FFELP loan funds for which a borrower is eligible, the school must deduct from the student's cost of attendance (COA) any other types of financial assistance the student has received, or will receive, for the appropriate period of enrollment.

A student's estimated financial assistance (EFA) includes all aid the student—or a parent on behalf of a student—will receive for the period of enrollment from federal, state, institutional, or other sources. Examples of aid that must be included in the EFA are scholarships, grants, financial need-based employment income, and loans—including, but not limited to:

- Veterans' educational benefits. When determining eligibility for a subsidized Stafford loan, benefits paid under Chapter 30 of Title 38 of the U.S. Code are excluded from the EFA, as noted later in the section.
- National service education awards or postservice benefits. When determining eligibility for a subsidized Stafford loan, these benefits are excluded from the EFA, as noted later in the section.
- Reserve Officer Training Corps (ROTC) scholarships and subsistence allowances.

- Benefits paid under the Selected Reserve Educational Assistance Program, Restored Entitlement Program for Survivors, or Educational Assistance Pilot Programs.

- Any educational benefits paid because of enrollment in a postsecondary education institution.

- The estimated amount of other federal student financial aid—including, but not limited to, Federal Pell Grant and campus-based aid. The gross amount (including fees) of any subsidized Stafford, unsubsidized Stafford, or PLUS loan is also included, except as noted below.

A student's EFA does not include:

- Amounts used to replace the expected family contribution (EFC), including unsubsidized Stafford loan amounts, PLUS loan amounts, or private or state-sponsored loan funds.

- For a *subsidized* Stafford loan, veterans' educational benefits paid under Chapter 30 of Title 38 of the U.S. Code (Montgomery GI Bill–Active Duty) and national service education awards or postservice benefits paid under Title I of the National and Community Service Act of 1990 (AmeriCorps).

- Federal Perkins loans and Federal Work-Study (FWS) funds the school determines the student has declined for any reason.
  [§682.200(b)]

## 6.8 Determining the Student's Dependency Status

~~Before certifying a loan, a school must determine whether the student is a dependent or independent student.~~ A student's dependency status is determined from information provided on the Free Application for Federal Student Aid (FAFSA). ~~This determination~~ A student's dependency status ~~will~~ affects ~~the school's computation of~~ the expected family contribution (EFC) and the types and amounts of aid ~~for which~~ that the student may be ~~considered~~ eligible to receive.

For purposes of ~~Stafford and PLUS loans~~ Title IV aid, a student is considered independent if he or she meets one or more of the following criteria:

- The student is at least 24 years old by December 31 of the award year.

- The student is an orphan or ward/dependent of the court, or was a ward/dependent of the court until he or she reached age 18.

- The student is a veteran of the U.S. Armed Forces. For the purposes of determining dependency status, a student is considered to be a veteran if he or she will meet both of the following criteria prior to the end of the award year for which the FAFSA is filed.

  - The student engaged in active duty in the U.S. Armed Forces; is a National Guard or Reserves enlistee, who was called to active duty for purposes other than training; or was a cadet or midshipman at a service academy (even if the student withdrew before graduation).

  - He or she was released under a condition other than dishonorable.

  ~~A student who enrolls in a service academy but who withdraws before graduating is considered a veteran for purposes of determining dependency status. If the school is aware that the student was released from the academy under dishonorable circumstances, the student may not be considered a veteran for purposes of determining his or her dependency status.~~

- The student is working on a master's or doctorate program (such as an MA, MBA, MD, JD, PhD, EdD, or graduate certificate, etc.) at the beginning of the award year for which the FAFSA is completed. ~~a graduate or professional student—regardless of whether the student is claimed as an income tax exemption by his or her parents for the first calendar year of the award year.~~

- The student is married as of the date the FAFSA is completed.

- The student has at least one child who receives more than half of his or her support from the student.[1]

1. Policy 720 (Batch 108), approved November 20, 2003

- The student has ~~legal~~ a dependent~~s~~, other than a spouse or a child, who lives with the student and receives more than half of his or her support from the student at the time the FAFSA is completed and through June 30 of the award year.

  ~~The student is determined to be independent—and is documented as such—by a financial aid administrator (FAA) on the basis of special circumstances.~~
  [HEA 480(d); DCL GEN 95-54]

A student is considered dependent if he or she does not meet any of the preceding criteria for an independent student unless the financial aid administrator (FAA) determines that the student is independent on the basis of special circumstances and performs a dependency override. [§668.2(b)][1]

**Dependency Overrides**

If unusual circumstances exist, ~~A~~ a financial aid administrator (FAA) may use professional judgment to determine that a student who does not meet any of the above criteria is an independent student. A dependency override affects all Title IV programs (i.e., a student determined to be independent is considered independent for all Title IV programs, not just FFELP). The FAA must document, in the student's file, ~~with~~ the unusual circumstances on which the dependency override was based. ~~information regarding a change in dependency status. The FAA may not require an independent student to file as a dependent; however, the FAA may adjust the student's assets or income to reflect a parental contribution if that action is appropriate. An FAA also may change a student's status from dependent to independent in circumstances where the FAA uses professional judgment to determine that such a change is appropriate.~~ The FAA is generally required to acquire third party documentation supporting a student's unusual circumstances. If the only documentation available to the FAA is a statement by the student, the student's statement must include the facts related to the unusual circumstances. The FAA must also prepare a written statement regarding the dependency determination that includes any other pertinent facts not already covered in the documentation.

A determination of unusual circumstances must be made each award year. Further, a change to a student's dependency status by an FAA at one school is not binding on another school. Each school is required to make an individual determination of the student's dependency status and each school must retain documentation to support its decision. The FAA must prepare a written statement regarding the dependency determination, including the identification of the specific unusual circumstances upon which the FAA is basing the determination. The school must maintain this documentation and the supporting documentation used to make the determination.

Unusual circumstances may include, but are not limited to:

- An abusive family situation in which an otherwise dependent student has been a victim of domestic violence and is no longer residing with his or her parents.
- Abandonment by parents in which a student's parents cannot be located.

The following four conditions, individually or in combination with one another, do not qualify as unusual circumstances:

- A parent's refusal to contribute to the student's education.
- A parent's unwillingness to provide information on the FASFA or for verification.
- A parent not claiming the student as a dependent for income tax purposes.
- A student's demonstration of total self-sufficiency.

An FAA may make a dependency override only from dependent to independent. However, if an independent student is receiving substantial support from his or her parents, a school may use professional judgment to adjust one or more of the FAFSA data elements, such as untaxed income, to reflect this support.
[HEA 480(d); §668.2; DCL GEN-03-07][2]

1. Policy 720 (Batch 108), approved November 20, 2003

2. Policy 716 (Batch 108), approved November 20, 2003

## 6.9
## Defining Enrollment Status

A school must define full-time enrollment status for each of its programs of study. A student's enrollment may include any combination of coursework, work, research, or special studies (see subsection 6.1 for information regarding the definition of an academic year and the frequency of annual loan limits). A student's enrollment status may affect the student's cost of attendance (COA), and, therefore, the amount of loan funds the school may certify.

### Undergraduate Students

For an undergraduate student, the school's definition of full-time enrollment for a program must meet, at a minimum, one of the following standards:

- 12 semester or quarter hours per academic term, for a program in which academic progress is measured in semester, trimester, or quarter hours.
- 24 semester or 36 quarter hours per 30-week academic year, for a program in which academic progress is measured in credit hours without using a semester, trimester, or quarter system. In this case, a week is any period of 7 consecutive days in which the school provides for at least one day of regularly scheduled instruction, examinations, or preparation for final examinations. Any time frame allotted to such preparation for final examinations must be after the last scheduled day of classes for the term or payment period.
- 24 clock hours per week, for a program in which academic progress is measured in clock hours.
- A series of courses or seminars that equals 12 semester hours or 12 quarter hours in a maximum of 18 weeks.
- The work portion of a cooperative education program in which the amount of work performed is equal to the academic workload of a full-time student.
- In an educational program using both credit and clock hours, any combination of credit and clock hours in which the sum of the following fractions is equal to or greater than one:

*For a program using a semester, trimester, or quarter system:*

$$\frac{\text{number of credit hours per term}}{12} + \frac{\text{number of clock hours per week}}{24}$$

*For a program not using a semester, trimester, or quarter system:*

$$\frac{\text{number of semester or trimester hours per academic year}}{24} + \frac{\text{number of quarter hours per academic year}}{36} + \frac{\text{number of clock hours per week}}{24}$$

Half-time enrollment is considered half of the full-time status defined by the school for its students.

### Graduate and Professional Students

For graduate and professional students, full-time enrollment is determined based on academic standards developed by the school. Half-time enrollment is considered half of the full-time academic workload defined by the school for its graduate and professional students.

## 6.10
## Determining the Student's Grade Level

A school is required to publish the academic standards and grade level advancement requirements for each of its programs of study. Because maximum FFELP loan amounts have been established for each grade level, a student's grade level is an intrinsic part of determining the loan amount for which the student is eligible, and, thus, the amount of the loan the school may certify.

### Undergraduate Students

The school may advance an undergraduate student's grade level once the student completes the number of credit or clock hours specified by the school as the amount necessary for the student to advance in academic standing within the student's program of study (for example, from freshman to sophomore). At a minimum, the school's standards must require the student to complete at least 24 semester or trimester hours, 36 quarter hours, or 900 clock hours to advance the student to the next grade level.

Note: If a school's published academic standing requirements exceed the school-defined academic year, the school is required to use the published academic standing requirements to certify a student's grade level for loan purposes. For example, a school defines its academic year

as the completion of 24 credits in 30 weeks, but requires the successful completion of 30 credits for a student to advance from freshman to sophomore standing. In this case, if a student completes less than 30 credits during his or her first academic year, the student remains eligible for first-year undergraduate loan limits at the beginning of his or her second academic year. The school may not certify a second-year undergraduate loan until the student successfully completes 30 credits, as required by the school to advance from freshman to sophomore standing.

#### Graduate and Professional Students

A graduate or professional student's grade level is advanced according to the school's academic standards for the program of study in which the student is enrolled. [§668.2; §682.204; §682.401(b)(2)(ii)(B)]

## 6.11 Loan Limits

Based on all information available, a school is responsible for certifying a loan amount that ensures a borrower does not receive a loan in excess of the Stafford annual or aggregate loan limits. PLUS loans may not exceed the cost of attendance (COA) minus estimated financial assistance (EFA).

For more information on annual loan limits, schools should refer to subsection 6.11.A and the guidelines issued by the Department in the *Federal Student Aid Handbook*, Direct Loan and FFEL Programs Reference, and in 34 CFR 682.603(d)(1).

## 6.11.A Stafford Annual Loan Limits

The amount of Stafford loan funds that a student may borrow for each academic year—the annual loan limit—is based on whether the student is enrolled in an undergraduate, graduate, or professional program of study. For an undergraduate student, the annual loan limit varies according to several factors:

- The student's dependency status, as defined in section 6.8.
- The year of study in which the student is enrolled (first, second, third, fourth, or subsequent year).
- The length of the undergraduate program of study, regardless of how long it takes the student to complete the program.
- The length of the student's program or final period of enrollment, expressed as a proportion of the school's academic year.

A Stafford annual loan limit does not include the amount of capitalized interest or any collection costs that may have been added to the principal balance of the borrower's prior loans. When determining the borrower's Stafford loan eligibility, the financial aid administrator (FAA) may assume that all outstanding principal balances include only the balance of original principal. However, the school must secure and retain documentation of the capitalized amount included in any reported loan balances if the school's certification of a new loan would otherwise cause the borrower to exceed his or her annual limit.

The borrower, school, and lender are encouraged to work with the guarantor to provide information about the borrower's unpaid principal balance, if documentation is necessary prior to approving the borrower's loan.

#### Undergraduate Students

The Stafford annual and aggregate loan limits for undergraduate students are detailed in Figure 6-4.

Exception: Increased annual and aggregate unsubsidized Stafford loan limits are authorized for some students in 5-year Bachelor of Pharmacology Programs (see subsection 6.11.C).

In determining the appropriate Stafford annual loan limit for an undergraduate student, including a transfer student or a student who has completed a program of study at another school, schools and lenders must adhere to the following additional parameters:

- A student who is enrolled in a program that is more than one academic year in length and has not successfully completed the first year of that program is eligible for Stafford loan funds not to exceed the annual loan limits applicable to first-year undergraduate students, regardless of the actual length of time it takes the student to complete the first academic year of the program.
- A student who is enrolled in an undergraduate program that is one academic year or less in length is eligible for Stafford loan funds not to exceed the annual loan limits applicable to first-year undergraduate students, regardless of the actual length of time it takes the student to complete the program.
- A student who is enrolled in an undergraduate program that is more than one academic year in length and has successfully completed the first year in that program

but has not successfully completed the second year of the program is eligible for Stafford loan funds not to exceed the annual loan limits applicable to second-year undergraduate students, regardless of the actual length of time it takes the student to complete the second academic year of the program.

- A student who has an associate degree or bachelor's degree that is required for admission into a program and who is not a graduate or professional student is eligible for Stafford loan funds not to exceed the annual loan limits applicable to third-, fourth-, and fifth-year undergraduate students. In this case, in order to determine the student's grade level and the applicable annual loan limit, the school may consider the number of years the student completed in the required degree program.

- A dependent student who is considered by the school to be a first-year student in a program for which he or she is currently seeking a degree is eligible for Stafford loan funds not to exceed the annual loan limits applicable to first-year undergraduate students—even if that student previously obtained an undergraduate degree in a different program.

- A student who has a bachelor's degree and is enrolled or accepted for enrollment in coursework necessary for a professional credential or certification from a state that is required for employment as a teacher in an elementary or secondary school in that state is eligible for Stafford loan funds not to exceed the annual loan limits applicable to fifth-year undergraduate students.

- A student who is taking preparatory coursework that the school has determined and documented to be necessary for the student to enroll in an undergraduate program is eligible for Stafford loan funds not to exceed the annual loan limits applicable to first-year undergraduate students. A student is eligible for loans for one period of 12 consecutive months beginning on the first day of the loan period for which the student is enrolled.

- A student who is taking preparatory coursework that the school has determined and documented to be necessary for the student to enroll in a graduate or professional program is eligible for Stafford loan funds not to exceed the annual loan limits applicable to fifth-year undergraduate students. Preparatory coursework required for admission into a graduate or professional program may be taken at a school that is not generally permitted to certify loans at the fifth-year undergraduate loan level. A student is eligible for loans for one period of 12 consecutive months beginning on the first day of the loan period for which the student is enrolled.

A school may not link separate, stand-alone programs of study to allow a student to qualify for higher annual loan limits than the student would otherwise be eligible to receive based on the length of the program. [§682.204(a) through (d); DCL GEN-98-2; *Federal Student Aid Handbook*, Direct Loan and FFEL Programs Reference]

### Graduate and Professional Students

The Stafford annual loan limit for a student enrolled in a graduate or professional program of study is $18,500 for each academic year, with subsidized Stafford loans comprising no more than $8,500 of the total amount borrowed.

A graduate or professional student's unpaid principal amount of all Stafford loans (including all SLS and Direct Stafford loans received or any portion of an outstanding Consolidation loan that fully repaid such loans) may not exceed $138,500. Subsidized Stafford loans may comprise no more than $65,500 of the total amount borrowed.

Exception: Increased annual and aggregate unsubsidized Stafford loan limits are authorized for certain health profession students (see subsection 6.11.C).

## Stafford Annual Loan Limits — Figure 6-4

| | Length of Program or Final Period of Enrollment | | |
|---|---|---|---|
| | Program of study of at least a full academic year in length | One-year program of study with less than a full academic year remaining | Program of study of less than one academic year |
| **First-Year Undergraduates** | | | |
| Base Stafford eligibility (subsidized and unsubsidized) | $2,625 | Proportional Proration Calculation #1 | Proportional Proration Calculation #2 |
| Additional unsubsidized Stafford eligibility | $4,000 | Proportional Proration Calculation #1 | Proportional Proration Calculation #2 |

| | Length of Program or Final Period of Enrollment | |
|---|---|---|
| | Program of study of at least a full academic year in length | Program of study with less than a full academic year remaining |
| **Second-Year Undergraduates** | | |
| Base Stafford eligibility (subsidized and unsubsidized) | $3,500 | Proportional Proration Calculation #1 |
| Additional unsubsidized Stafford eligibility | $4,000 | Proportional Proration Calculation #1 |
| **Third-, Fourth-, and Fifth-Year Undergraduates** | | |
| Base Stafford eligibility (subsidized and unsubsidized) | $5,500 | Proportional Proration Calculation #1 |
| Additional unsubsidized Stafford eligibility | $5,000 | Proportional Proration Calculation #1 |

**Proportional Proration Calculation #1**
Multiply the following ratio by the applicable annual loan limit for a full academic year:

$$\frac{\text{Number of semester, trimester, quarter, or clock hours enrolled}}{\text{Number of semester, trimester, quarter, or clock hours in academic year}}$$

**Proportional Proration Calculation #2**
Multiply the lesser of the following ratios by $2,625 for base annual Stafford loan limit and by $4,000 for additional annual unsubsidized Stafford loan limit:

$$\frac{\text{Number of semester, trimester, quarter, or clock hours enrolled}}{\text{Number of semester, trimester, quarter, or clock hours in academic year}}$$

*or*

$$\frac{\text{Number of weeks in program}}{\text{Number of weeks in academic year}}$$

[§682.204]

**Dependent Undergraduate Students**
The total amount of subsidized and unsubsidized Stafford loans made to a dependent undergraduate student for any academic year may not exceed the "base Stafford eligibility" specified above for that student's grade level. A dependent undergraduate student's unpaid principal amount of subsidized and unsubsidized Stafford loans (including all Direct Stafford loans received or any portion of an outstanding Consolidation loan that paid in full a Stafford or Direct Stafford loan) may not exceed $23,000.

If a dependent undergraduate student's parent is unable to obtain a PLUS loan (because the parent has adverse credit or other exceptional circumstances exist that are documented by the FAA), the total amount of subsidized and unsubsidized Stafford loans for any academic year may not exceed the "base Stafford eligibility" plus the "additional unsubsidized Stafford eligibility" specified above for that student's grade level. Only one parent need be unable to obtain a PLUS loan for the student to be eligible for the additional loan funds. See subsection 6.15.D for more information.

The student's aggregate unpaid principal amount of all Stafford loans (including all SLS loans and Direct Stafford loans received or any portion of any outstanding Consolidation loan that paid in full a Stafford, SLS, or Direct Stafford loan) may not exceed $46,000 for undergraduate study, with subsidized Stafford loans comprising no more than $23,000 of the total limit. See section 6.11 for more information.

**Independent Undergraduate Students**
The total amount of subsidized and unsubsidized Stafford loans for any academic year may not exceed the "base Stafford eligibility" plus the "additional unsubsidized Stafford eligibility" specified above for that student's grade level. An independent undergraduate student's unpaid principal amount of all Stafford loans (including all SLS and Direct Stafford loans received or any portion of an outstanding Consolidation loan that paid in full a Stafford, SLS, or Direct Stafford loan) may not exceed $46,000 for undergraduate study, with subsidized Stafford loans comprising no more than $23,000 of the total limit. See section 6.11 for more information.

## 6.11.B
## Stafford Aggregate Loan Limits

In determining the student's eligibility for loans in the current year, the school must also consider the outstanding loans the student has previously borrowed. The school may not certify a loan amount that would cause the student to exceed applicable aggregate loan limits.

A Stafford aggregate loan limit does not include the amount of capitalized interest or any collection costs that may have been added to the principal balance of the borrower's prior loans. When determining the borrower's Stafford loan eligibility, the financial aid administrator (FAA) may assume that all outstanding principal balances include only the balance of original principal. However, the school must secure and retain documentation of the capitalized amount included in any reported loan balances if the school's certification of a new loan would otherwise cause the borrower to exceed his or her aggregate limit.

A Stafford aggregate loan limit also does not include the amount of any PLUS loan borrowed by the student or his or her parents. A borrower who has reached the FFELP aggregate limit and whose principal is paid in part through refunds, returned funds, prepayments, payments, cancellations, discharge, or other reductions in principal regains eligibility up to the lesser of the applicable annual loan limit or the aggregate amount.

A Stafford aggregate loan limit must also include:

- The portion of any outstanding Consolidation loan made under the FFELP or FDLP that was derived from a Stafford or SLS loan included in the consolidation. See subsection 6.11.F for more information.

- The amount of any outstanding Direct Stafford loan made under the FDLP.
  [§682.204(j)]

The amount a student borrows while enrolled as a graduate or professional student does not count toward the student's undergraduate aggregate loan limit.

In determining the appropriate Stafford aggregate loan limit for an independent undergraduate student borrower, a dependent student borrower whose parent is unable to obtain a PLUS loan, or a graduate or professional student borrower, schools and lenders must adhere to the following additional parameters:

- An eligible student may continue to borrow until he or she reaches the aggregate loan limits for subsidized and unsubsidized loans, regardless of the "base" or "additional" unsubsidized loan amounts borrowed.

- If a student's status changes from independent to dependent or if the student's parent is initially unable to obtain a PLUS loan but is later determined eligible, special calculations are required to determine the student borrower's remaining loan eligibility. In these cases, the school must calculate the remaining aggregate loan eligibility by totaling only those portions of loans previously received that represent base loan amounts. Any additional unsubsidized loan amounts received when the borrower was an independent student, or when his or her parent was unable to obtain a PLUS loan, are *not* to be included in the loan limit calculations.

For example, an independent undergraduate student borrower or a dependent student borrower whose parent is unable to obtain a PLUS loan is eligible to receive a combined aggregate subsidized and unsubsidized loan amount of up to $46,000, with subsidized Stafford loans comprising no more than $23,000 of that amount. If the borrower has not reached the $46,000 limit, the borrower may qualify for the annual loan amount applicable to his or her grade level. To calculate the borrower's remaining aggregate eligibility, subtract the subsidized and unsubsidized loan amounts the borrower has received from the aggregate loan limit of $46,000.
[DCL GEN-97-3]

## 6.11.C
## Increased Unsubsidized Stafford Loan Limits for Health Profession Students

In some cases, the school may certify loan amounts that exceed the standard annual and aggregate loan limits. These instances are limited to loans for certain health profession students who may be eligible to borrow unsubsidized Stafford loan amounts that exceed the annual and aggregate limits listed in subsections 6.11.A and 6.11.B.

### School Eligibility

For loan periods beginning on or after May 1, 1999, all institutions offering eligible health profession programs are eligible to award the increased unsubsidized loan amounts regardless of past participation in the HEAL program. Eligible health profession programs include:

- Allopathic medicine programs accredited by the Liaison Committee on Medical Education.
- Osteopathic medicine programs accredited by the American Osteopathic Association, Bureau of Professional Education.
- Dentistry programs accredited by the American Dental Association, Commission on Dental Accreditation.
- Veterinary medicine programs accredited by the American Veterinary Medical Association, Council on Education.
- Optometry programs accredited by the American Optometric Association, Council on Optometric Education.
- Podiatric medicine programs accredited by the American Podiatric Medical Association, Council on Podiatric Medical Education.
- Pharmacy programs accredited by the American Council of Pharmaceutical Education.
- Public health programs accredited by the Council on Education for Public Health.
- Chiropractic medicine programs accredited by the Council on Chiropractic Education, Commission on Accreditation.
- Health administration graduate programs accredited by the Accrediting Commission on Education for Health Services Administration.
- Clinical psychology programs accredited by the American Psychological Association, Committee on Accreditation.
  [DCL GEN-99-21]

### Student Eligibility

To be eligible for unsubsidized Stafford loans exceeding standard annual loan limits, a health profession student must meet the following criteria:

- The student must be eligible for an unsubsidized Stafford loan.
- The student must be enrolled full time.
- The student must not receive a HEAL program loan for any portion of the same loan period as the increased unsubsidized Stafford loan amount.
- The student must be enrolled in an eligible program at an eligible school, as defined above.

The 5-year Bachelor of Pharmacology Program is the only program in which an undergraduate student is eligible for increased additional unsubsidized funding under these provisions. In addition to meeting all of the other eligibility criteria outlined in this subsection, students enrolled in this program must meet the following criteria to be eligible for the additional unsubsidized Stafford loan limits:

- The student must be enrolled in the fourth or fifth year of the program.
- The student must be independent, or be a dependent student whose parent is unable to borrow a PLUS loan.

### Special Annual Unsubsidized Stafford Loan Limits

The annual unsubsidized Stafford loan limits for eligible health profession students supplement the regular Stafford loan limits the student would be eligible to receive in the same loan period, and cannot exceed the lesser of the following:

- The student's cost of attendance (COA) less other financial aid.
- The student's regular unsubsidized Stafford loan limit (see subsection 6.11.A) plus the student's applicable HEAL loan maximum.

HEAL program and discipline loan maximums are specified in section 104.3.2 of the *Department of Health and Human Services, Student Financial Aid Guidelines*. In general, the maximums are as follows:

- $12,500 for a 9-month academic year, not to exceed $16,667 for a 12-month academic year, for students enrolled in a graduate of public health, graduate in allied health, doctor of chiropractic, doctoral degree in clinical psychology, masters or doctoral degree in health administration, or bachelor or master of science in pharmacology or equivalent degree. In the case of a pharmacology student, the doctor of pharmacy degree is considered to be an equivalent degree if it is taken at a school that does not require the bachelor or master of science in pharmacy as a prerequisite for the doctor of pharmacy degree.

- $20,000 for a 9-month academic year, not to exceed $26,667 for a 12-month academic year, for students enrolled in doctoral programs in allopathic medicine, osteopathic medicine, dentistry, veterinary medicine, optometry, and podiatric medicine.

Schools must follow HEAL proration requirements and other HEAL program restrictions when awarding students increased unsubsidized Stafford loans, except that the HEAL program needs test is not required for increased unsubsidized Stafford loan amounts.

#### Special Aggregate Stafford Loan Limits

Health profession students who are eligible for increased unsubsidized Stafford loans may receive an aggregate amount of $189,125. Subsidized Stafford loans may comprise no more than $65,500 of this amount. Undergraduate 5-year Bachelor of Pharmacology students may receive an aggregate amount of $70,625. Subsidized Stafford loans may comprise no more than $23,000 of this amount.
[DCL GEN 99-21; GEN 99-7; GEN 98-18; GEN 97-14; GEN 97-4; GEN 96-14]

## 6.11.D Exceeding Loan Limits

A Stafford or PLUS loan amount must never exceed the maximum amount the borrower is eligible to receive or the amount the borrower requested, whichever is less. A loan disbursed in excess of the lesser of these two amounts may lose its guarantee and eligibility for interest benefits and/or special allowance payments. A PLUS loan may not exceed the cost of attendance (COA) minus estimated financial assistance (EFA), but otherwise is not limited. See subsection 6.11.A for more information regarding Stafford loan limits.

If a Stafford borrower inadvertently exceeds an annual or aggregate loan limit under a Title IV program, the borrower will not be eligible for any additional Title IV funds until one of the following occurs:

- The borrower authorizes the school to adjust the excess loan amount or reallocate funds between a subsidized Stafford loan and an unsubsidized Stafford loan for which the borrower is eligible. For more information on adjusting or reallocating loan amounts, see section 6.20.

- The borrower repays in full the excess loan amount.

- The borrower makes arrangements satisfactory to the holder of the loan to repay the excess loan amount. [§668.32(g)(2); §668.35(b)(1) and (2); *Federal Student Aid Handbook*, Student Eligibility]

If a Stafford borrower exceeds an annual or aggregate loan limit as a result of providing false or misleading information, the borrower can only regain eligibility for Title IV aid by paying excess funds in full.

A school may not certify a new loan for any amount that will cause the borrower to again exceed the annual or aggregate loan limit.

## 6.11.E Prorated Loan Limits

A school also is responsible for determining whether prorated loan limits are applicable and how annual loan limits must be prorated. An undergraduate Stafford loan borrower is subject to certain prorated loan limits if he or she is enrolled in a program of study that meets either of the following criteria:

- The program's duration is shorter than the statutory minimum for an academic year (based on credit hours, clock hours, or the minimum 30 weeks of instructional time).

- The program's duration is equal to or longer than the statutory minimum for an academic year, but the borrower is completing the remainder of the program in a period of enrollment that is shorter than an academic year.

In prorating a loan amount for a student enrolled in a program of study with less than a full academic year remaining, the school need not recalculate the amount of the loan if the number of hours for which an eligible student is enrolled changes after the school certifies the loan. If the student drops from full-time after the loan has been certified, but continues to be enrolled at least half time, the loan amount need not be adjusted due to the decrease in hours. However, the student must continue to be eligible to receive the loan funds at the time the funds are delivered.

If the student whose loan was originally prorated because his or her remaining program of study was less than a full academic year increases the number of hours to a full academic year, the student may need to complete a new application to apply for any additional loan eligibility. If the student requests an increased loan amount, the school may certify the increased loan amount for an eligible borrower without requiring the student borrower to complete a new Master Promissory Note (MPN). For more information on increased loan amounts, see section 6.20.
[DCL GEN-98-25; DCL GEN-99-9]

## 6.11.F
## Effects of Consolidation Loan on New Stafford Loan Eligibility

When certifying a new Stafford loan, the financial aid administrator (FAA) should consider the effects, if any, that a student's Consolidation loan will have on his or her eligibility for the new loan. If a student is applying for a subsidized Stafford loan, the FAA may assume that a previously borrowed Consolidation loan includes only subsidized Stafford loans. If a student is applying for an unsubsidized loan, the FAA may assume that the previously borrowed Consolidation loan includes only unsubsidized Stafford loans. Based on these assumptions, if the student borrower exceeds the aggregate loan limits, the underlying loan documentation should be secured from available sources, such as the student, the school, or through the National Student Loan Data System (NSLDS), and should be retained by the party making the determination.
[DCL 96-L-186/96-G-287, Q&A #15]

## 6.12
## Determining the Eligible Loan Amount

The maximum loan amount a school may certify for each academic year is the lesser of:

- The amount certified by the school—whether that amount is calculated as the estimated cost of attendance (COA) minus any estimated financial assistance (EFA) (and, for a subsidized Stafford loan, minus the expected family contribution [EFC]) or a reduced eligibility amount determined by the school.
- The applicable annual loan limit for the loan type, program length, and grade level.
- The remaining eligibility under the applicable aggregate loan limit.
- The loan amount requested by the borrower.

A lender may, at its discretion, approve a loan amount that is less than the amount for which the borrower might otherwise qualify.

## 6.13
## Determining the Loan Amount at Schools with Credit-Hour Programs

A school must apply the appropriate formula (see subsection 4.1.C) to determine the amount of Stafford funds that a student who is enrolled in the program is eligible to receive. Based on this calculation, the school must determine whether the student's educational program constitutes a full academic year, at least two thirds of an academic year, at least one third of an academic year, or less than one third of an academic year (see subsection 6.3.D). The school must then calculate the loan amount that reflects the length of the student's educational program.

The PLUS program does not require loans to be reduced based on the length of a student's educational program. If the school determines that the student is enrolled in an eligible program, no further action is necessary. If, however, the student is enrolled in a program the school determines is not eligible, the school cannot deliver any loan proceeds.

See subsection 4.1.C and the *Federal Student Aid Handbook*, Direct Loan and FFEL Programs Reference, for more information on the clock-hour/credit-hour conversion requirement for certain schools.
[§668.8(k) and (l); §668.9; *Federal Student Aid Handbook*, Direct Loan and FFEL Programs Reference]

## 6.14
## Determining a Student's Eligibility for Interest Subsidy on Stafford Loans

Before certifying a Stafford loan, a school must determine the student's eligibility for interest subsidy on that loan.

### 6.14.A
### Subsidized Stafford Loans

A subsidized Stafford loan made for the certified amount or less—subject to the applicable Stafford annual and aggregate loan limits—is eligible for federal interest subsidy. The Department pays accruing interest on behalf of the borrower to the lender on a subsidized Stafford loan during the student's in-school, grace, deferment, and, if applicable, post-deferment grace periods (see appendix A). The borrower is responsible for paying the interest that accrues during all other periods.
[§682.300(b)(1)]

A school may certify a subsidized Stafford loan only for a borrower who demonstrates financial need. A borrower is not eligible to receive a subsidized Stafford loan that exceeds his or her unmet financial need, regardless of the amount of that need.

A student is not considered to have financial need if he or she is a member of a religious order, group, community, society, agency, or other organization that:

- Has the primary objective of promoting ideals and beliefs regarding a supreme being.
- Requires its members to forgo monetary or other support substantially beyond the support it provides.
- Directs the members to pursue the course of study or provides subsistence support to its members.

### 6.14.B
### Unsubsidized Stafford Loans

Unsubsidized Stafford loans are authorized for borrowers who do not qualify for federal interest subsidy, borrowers who qualify only partially for subsidy, and borrowers who qualify for subsidy but have already borrowed the maximum subsidized amount and are eligible for additional Stafford loan funds. Eligibility for an unsubsidized Stafford loan is calculated by deducting the sum of a student's subsidized Stafford loan eligibility and all other expected sources of financial assistance from the cost of attendance (COA). The student is responsible for paying interest that accrues on his or her unsubsidized Stafford loan during all periods.

### 6.14.C
### Nonsubsidized Stafford Loans

Before the 1992 Reauthorization of the Higher Education Act, a lender was permitted to make a nonsubsidized Stafford loan to a borrower who did not qualify for federal interest benefits and whose loan amount would not exceed the COA minus other financial assistance. Lenders did not pay origination fees on these nonsubsidized loans, and the loans were not eligible for interest benefits. Nonsubsidized Stafford loans remain eligible for all deferments and repayment options applicable to other Stafford loans.

## 6.15
## School Certification of the Loan

In certifying a Stafford or PLUS loan, a school is required to make several determinations regarding the eligibility of the student—or the student and the parent in the case of a PLUS loan—and the maximum amount that may be borrowed (see section 6.11). The school must ensure it does not certify an amount that would result in the borrower receiving more than the borrower's actual eligibility.
[§682.603(d)]

A school may not assess a Stafford or PLUS loan borrower, or student in the case of a PLUS loan, a fee for the completion or certification of any FFELP form or for providing any information necessary to receive a FFELP loan or any benefits associated with a FFELP loan. Examples include loan applications, promissory notes, enrollment verification requests, or deferment forms.
[§682.603(h)]

#### Schools on the Reimbursement Payment Method or the Cash Monitoring Payment Method

A school that the Department has placed on the reimbursement payment method or the cash monitoring payment method for the Federal Pell Grant Program, the FDLP, or the campus-based programs must comply with any additional requirements established by the Department regarding the certification and delivery of Stafford or PLUS funds to its borrowers.

A school participating solely in the FFELP may be required to seek the Department's approval to certify loan applications and deliver Stafford or PLUS loan funds if the Department determines a need to monitor the school's participation.

A school needing additional information from the Department on its individual requirements under the reimbursement payment method or the cash monitoring payment method should refer to appendix D for contact information.
[§668.167(d), (e), and (f); §682.604(a)(3)]

## 6.15.A Preventing Overawards

A school must develop procedures to ensure that it does not certify and each Stafford borrower does not receive a loan exceeding the applicable annual and aggregate loan limits (see section 6.11). In addition, the school must ensure that the total aid received for a period of enrollment does not exceed the student's cost of attendance (COA). After a school certifies a Stafford or PLUS loan, any changes in the type or amount of the student's awards may result in an "overaward." For more information on overawards, see section 8.6.
[§682.603(d)]

## 6.15.B Stafford Loan Certification

A school may certify a Stafford loan only if the student borrower meets the eligibility criteria outlined in subsections 5.1.A and 5.1.B.

Before certifying a Stafford loan for an undergraduate student, a school that participates in the Federal Pell Grant Program must determine the student's eligibility for a Pell Grant. If the student is eligible for a Pell Grant, the amount that he or she is eligible to receive must be included in the student's estimated financial assistance (EFA) when determining the student's Stafford loan eligibility. If the student applies for a Pell Grant and receives notification that the funds will not be available, the school may disregard the student's Pell Grant eligibility in assessing the student's financial need.

Before certifying an unsubsidized Stafford loan, a school must determine a student's eligibility for a subsidized Stafford loan. If the student is eligible for a subsidized Stafford loan in an amount that exceeds $200, the school must certify an application for a subsidized Stafford loan prior to certifying an unsubsidized Stafford loan. If the student is eligible for a subsidized Stafford loan in an amount of $200 or less, the school is not required to certify an application for the subsidized Stafford loan prior to certifying the unsubsidized Stafford loan. In such cases, the school may include the amount of subsidized Stafford eligibility in the unsubsidized Stafford loan. Although the $200 tolerance does not exist for an unsubsidized Stafford loan, the school may refuse to certify the student's eligibility for an unsubsidized Stafford loan if the student has a nominal amount of eligibility and the lender has a minimum loan amount that exceeds the student's eligibility.

The school must document in the student's file the reason it did not certify a Stafford loan.
[HEA 428(b)(1)(A) and (B); §682.201(a)(1) and (2)]

## 6.15.C PLUS Loan Certification

A school may certify a PLUS loan only if both the parent borrower and the student for whom the loan is being obtained meet the eligibility criteria outlined in subsection 5.1.A. In addition, the student must meet the eligibility criteria outlined in subsection 5.1.B and the parent borrower must meet the eligibility criteria outlined in subsection 5.1.C.

When certifying a PLUS loan application and promissory note, a school that performs need analysis to determine PLUS loan eligibility must consider as estimated financial assistance (EFA) all types of Title IV aid for which the student is eligible—except for the amount of unsubsidized Stafford eligibility (unless the student is seeking such a loan). A school is not required to perform need analysis for PLUS loans.

## 6.15.D Additional Unsubsidized Stafford Loan Certification

If a dependent student's parent is unable to obtain a PLUS loan at a school that participates in the PLUS Loan Program, the school may certify additional unsubsidized Stafford loan funds for the student to the full extent of the loan limit—provided that the loan funds, when combined with the student's EFA, do not exceed the student's cost of attendance (COA) for the period of enrollment for which the loan is intended. Only one parent needs to be unable to obtain a PLUS loan in order for the dependent student to be eligible for the additional unsubsidized Stafford loan funds. A school may not certify additional unsubsidized Stafford loan funds for a dependent student based on the school's decision not to participate in the PLUS Loan Program.
[§682.204(k)]

If either parent subsequently is determined to be eligible for a PLUS loan *after* the school certifies the student for additional unsubsidized Stafford loan funds, the school must return to the lender any additional unsubsidized Stafford loan funds received by the school but not yet delivered to the student for that loan period. The school

must request the cancellation of any future disbursements of the additional unsubsidized Stafford loan funds. The school is not responsible for recovering and returning Stafford loan funds for which the student was previously determined eligible and which have been released to the student. However, those Stafford funds must be included in the EFA used in determining eligibility for the PLUS loan. [DCL 96-L-186/96-G-287, Q&A #3]

If a parent of a dependent student is initially determined to be eligible for a PLUS loan but subsequently is denied additional PLUS loan funds for the same loan period, the school may choose to certify additional unsubsidized Stafford loan funding for the student, not to exceed the maximum additional unsubsidized loan amounts (see subsection 6.11.A). Any eligible PLUS loan proceeds delivered or scheduled for future delivery during the loan period must be included in the EFA used in determining eligibility for the additional unsubsidized Stafford loan. The school need not recover or return PLUS loan funds for which the parent was previously determined eligible and that have been released to the parent or student before the parent was determined ineligible for additional funding.

## 6.15.E Refusing to Certify a Loan or Reducing Borrower Eligibility

A school may refuse to certify a loan or may reduce the borrower's eligibility for a loan (on a borrower-by-borrower basis) if it provides the reason for its action to the borrower in writing and retains documentation of the reason in the student's file. Reasons for refusing to certify a loan or reducing the borrower's eligibility for the loan might include:

- The school determines that the student's expenses to be covered by the loan (cost of attendance) can be met more appropriately by the school or directly by the student and/or borrower from other sources.
- The borrower indicates an unwillingness to repay the loan.

A school may not refuse to certify a loan if that refusal is based on policies that result in a pattern or practice of denying access to FFELP loans because of borrower race, sex, religion, national origin, age, income, or selection of a particular lender or guarantor. Practices at the school also may not discriminate against student borrowers who are physically, emotionally, or intellectually challenged—provided the student exhibits an appropriate ability to benefit. The school also may not refuse to certify a loan solely because it is aware that the student or borrower has filed a bankruptcy petition.
[§682.603(e)]

## 6.16 Applying for Federal Stafford and PLUS Loans

There are some important distinctions between the processes for obtaining Stafford and PLUS loans. The student borrower applies for a Stafford loan by submitting a completed Free Application for Federal Student Aid (FAFSA) and obtains one or more Stafford loans by signing a Stafford Master Promissory Note (Stafford MPN). The school may require a family seeking only a PLUS loan to submit a completed FAFSA, or it may establish the parent's eligibility for a PLUS loan via some alternate process.

The parent borrower may complete either a PLUS Application and Master Promissory Note (PLUS MPN) or a common PLUS application and promissory note depending on the process selected by the school. If the parent borrower completes a PLUS MPN, the MPN may be used to obtain one or more PLUS loans for a dependent student. A parent borrower must complete a separate PLUS MPN for each dependent student for whom he or she wishes to borrow. If the parent completes a common PLUS application and promissory note, he or she must complete a new application and promissory note to obtain each new PLUS loan.

## 6.16.A Applying for a Federal Stafford Loan

The borrower applies for a Stafford loan by completing the Free Application for Federal Student Aid (FAFSA). Some schools may require additional paper or electronic forms for their financial aid application process.

The financial aid administrator (FAA) determines the borrower's eligibility for a Stafford loan based on school records, information provided by the borrower on the FAFSA, and other information the FAA receives or accesses from other sources [for example, the National Student Loan Data System (NSLDS) and the Institutional

Student Information Record (ISIR)]. If the FAA determines that the student is eligible for a Stafford loan and the student accepts the loan, the school certifies eligibility for the loan electronically or on a school certification form. (See section 6.15.) The school submits the certification information to the guarantor or the lender selected by the borrower, depending on the loan processing options established at the school.

To complete the loan process, the borrower must sign a promissory note before loan funds can be disbursed by the lender and delivered by the school. The Stafford loan borrower may obtain a Stafford Master Promissory Note (Stafford MPN) from the school, lender, or, in some cases, guarantor, depending on the school's and lender's origination process.

The Stafford MPN has a multi-year feature that permits a borrower to sign one promissory note for multiple Stafford loans. All schools located in the United States, unless notified otherwise by the Department, have been extended the authorization to offer students the multi-year feature of the Stafford MPN. This extension has a retroactive feature. Schools that are not four-year colleges or graduate or professional schools may certify loans on or after March 1, 2003, regardless of the loan period covered by the loan. Borrowers attending these schools may receive loans for subsequent academic years based on a previously signed Stafford MPN even if the borrower signed that MPN before March 1, 2003. Schools located outside of the United States, unless specifically authorized by the Department to offer the multi-year feature, must use a separate Stafford MPN for each new academic year.

The Department will provide program participants with information regarding changes to a school's eligibility for the multi-year feature of the Stafford MPN. Lenders may rely upon information provided by the Department to ascertain whether schools are authorized to use the multi-year feature.

A Stafford loan borrower will generally complete only one Stafford MPN, the first time he or she requests a Stafford loan. A borrower must complete a new Stafford MPN for each new academic year when attending a school at which any of the following conditions applies:

- It is a foreign school not authorized by the Department to use the multi-year feature.
- The school has received notice of restricted multi-year use from the Department.
- The school has elected not to use the multi-year feature.

Student borrowers attending schools within the United States that have elected to use the multi-year feature of the Stafford MPN need only complete a single MPN unless one of the following conditions applies:

- The school has received notice of restricted multi-year use from the Department.
- The lender's ability to make additional loans under the borrower's Stafford MPN has been revoked.
- The borrower, school, or lender requires a new Stafford MPN.
- The guarantor requires a new Stafford MPN in the event of an invalid lender code.
- The prior Stafford MPN has expired.
- The borrower changes to a different lender.

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

After completing the Stafford MPN, the borrower submits the MPN to the school, the lender, or the guarantor, depending on the processing options established at the school.
[HEA 432(m)(1)(C) and (D); §682.102(a); DCL GEN-98-25; DCL GEN-99-9; DCL GEN-02-10]

## 6.16.B Applying for a Federal PLUS Loan

For PLUS loans, a parent borrower obtains either a common PLUS application and promissory note or a PLUS Application and Master Promissory Note (PLUS MPN) from the school, lender, or guarantor. The origination process and flow of documents vary depending on the process used by the school.

### PLUS Application and Master Promissory Note (PLUS MPN) Process

The parent borrower completes the required sections of the PLUS MPN and submits it to the school, lender, or guarantor, depending on the process used by the school. The student is not required to complete or sign the PLUS MPN. The PLUS MPN provides the parent borrower with instructions for completing the form, important information regarding the borrower's rights and responsibilities, and an overview of the loan process. By signing the PLUS MPN,

the parent borrower certifies that he or she has read the information on the note, understands the terms and conditions of the loan, and promises to repay the loan. The parent must complete a separate PLUS MPN to obtain one or more loans for each dependent student for whom he or she wishes to borrow.

The financial aid administrator (FAA) certifies the parent's and student's eligibility for the loan according to federal regulations, guarantor policies, and the school's published standards. All schools located in the United States, unless notified otherwise by the Department, may use the PLUS MPN as a multi-year note. Schools located outside of the United States, unless specifically authorized by the Department to offer the multi-year feature, must use a separate PLUS MPN for each new academic year. Before each PLUS loan is disbursed, the parent borrower must indicate to either the school or the lender the amount he or she wishes to borrow.

If the lender determines that the parent has an adverse credit history and an endorser is used, a separate Endorser Addendum is required for each PLUS loan. In any case in which an endorser is required, a new PLUS MPN is required for each loan. Any increase in the requested loan amount by the parent borrower must be approved by the endorser and requires a new MPN and Endorser Addendum.
[DCL GEN-03-03]

#### Common Application and Promissory Note Process

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

The parent and student must complete a common PLUS application and promissory note for each new loan received. To obtain additional funds within a single loan period, the borrower may request an increase to a current loan amount (see section 6.20) or initiate a new loan application process. The borrower and student may need to complete a new application and promissory note to increase the loan amount.

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

For more information about the PLUS loan application process, see subsection 2.2.A.

## 6.17 Forwarding the Loan Information

After calculating the amount of the Stafford or PLUS loan, the school notifies the lender or the guarantor of the certified loan amount depending on the processing options established by the school. In many cases, the school also may transmit the loan information electronically.

▲ Schools may contact individual guarantors for more information on transmitting loan information electronically. See section 1.6 for contact information.

Although a school is no longer required to certify the student's cost of attendance (COA), expected family contribution (EFC), and estimated financial assistance (EFA), the school must maintain the COA, EFC, and EFA data used in computing the borrower's loan eligibility and make this data available upon request of the lender, the guarantor, or the Department.
[HEA 428(a)(2)(C); 428H(b)]

A school must retain a copy of any certified common application and promissory note, Master Promissory Note (MPN) school certification, or record of the supporting data if the loan information was transmitted to the guarantor or lender electronically. The school also must ensure that the borrower receives a copy of the application and promissory note if the school receives the borrower's copy. For more information on school recordkeeping requirements, see section 4.10.
[§682.610]

## 6.18 Facilitating Guarantee Processing

A lender and school should ensure that the loan information for a Stafford or PLUS loan is accurate and complete before the loan is submitted for guarantee. To avoid the rejection of a loan guarantee, the following items should be checked:

- All portions of the Stafford Master Promissory Note (Stafford MPN), the PLUS Application and Master Promissory Note (PLUS MPN), or the common PLUS application and promissory note must be completed

electronically, in ink, or typed. If completed in pencil, the borrower must complete a new Stafford MPN, PLUS MPN, or common PLUS application and promissory note.

- A valid Social Security number (SSN) must be provided by or for each applicant—and by each student for whom a common PLUS application and promissory note is completed. If the item is blank or invalid, the applicant or the dependent student, if applicable, will be asked to provide or verify his or her SSN, and may be required to submit a copy of a Social Security card or other evidence establishing his or her number (see subsection 3.5.F).

- Two complete references with different U.S. addresses are required.

- The borrower must sign and date the MPN or the common PLUS application and promissory note. For PLUS loans, the student's signature is required on the common application and promissory note, but the student's signature is not required on the PLUS MPN. The lender may use the receipt date as the signature date if the borrower did not provide a date on the note, or if the date is erroneous.

## 6.19 Guarantee of the Loan

When the loan information is submitted to the guarantor, the guarantor reviews the applicant's eligibility based on the information provided and information on its data base. This information must meet federal requirements and applicable guarantor policy (such as area of service or one lender/one holder requirements). If the guarantor discovers that the information is incomplete, illegible, or in conflict with other information in its records, the guarantor will attempt to obtain the necessary information or resolve the conflict. If the discrepancy cannot be reconciled, the guarantor may deny the loan guarantee. Typically, the borrower, school, and lender are all notified of a denial and how to appeal the decision, if an appeal process exists.

Some guarantors have additional policies regarding the guarantee of loans. These policies are noted in appendix C.

## 6.20 Adjusting the Guaranteed Loan Amount

After the loan is guaranteed, the school may identify a need to change (increase or decrease) a borrower's loan amount or revise the allocation of the student's loans between subsidized Stafford funds and unsubsidized Stafford funds, or both. For instance, a school may determine that the borrower is eligible for additional loan funds, or it may determine that a student is eligible for additional subsidized Stafford funding rather than for the full amount of unsubsidized funds previously certified.

For schools using the common PLUS application and promissory note, changes in the loan amount may be made without obtaining a new application and promissory note, provided any increased loan amount will not exceed the amount requested by the borrower on the application and promissory note. If the borrower is eligible for additional loan funds and did not request sufficient funds on the original application, the borrower must submit a new or revised loan application and promissory note, or other written request acceptable to the lender and the guarantor (as an addendum to the note).

For schools using the Master Promissory Note (MPN), changes in the loan amount may be made without obtaining a new MPN, provided the borrower is eligible and the school or lender documents the borrower's request. The school or lender also has the option of requiring the borrower to sign a new MPN.

Subsidized and unsubsidized funds may be reallocated without obtaining a new note. Such loan adjustments or reallocations may occur before any disbursement is made on the loan, after the first disbursement is made, or even after the final scheduled disbursement is made.

Schools and lenders must ensure that disbursements made in conjunction with loan increases or the reallocation of loan funds are disbursed and delivered according to requirements specified in sections 7.7 and 8.7. However, in some instances a loan adjustment made after the first or subsequent disbursements have been made may result in a single disbursement that exceeds half of the total loan amount. When that excess is clearly documented as a loan increase or reallocation of funds, it is permissible.

A request to increase or decrease loan funds or to reallocate funds may be submitted to the guarantor by either the lender or school, depending on the application process established by the guarantor.

After receiving notice of an adjustment to the loan from either the school or the lender, the guarantor will make the necessary adjustments to the guarantee records. When the lender is advised of loan amount or allocation changes, the lender must make appropriate adjustments to its ED Form 799 and the borrower's account to ensure that the correct amount of fees, interest benefits, and special allowance are billed or repaid. The lender must notify the borrower of the adjusted loan amounts.

▲ Lenders and schools may contact individual guarantors for more information on procedures related to adjusting loan amounts after guarantee. See section 1.6 for contact information.

## 6.21 The NCHELP FFELP CommonLine Network

The NCHELP FFELP CommonLine Network standardizes electronic loan application formats, edits, response files, and error messages. Electronic data transmission in the CommonLine format is accepted by all guarantors.

CommonLine allows a school to exchange data with multiple guarantors, lenders, and servicers through a single point of contact, thus reducing the number of contacts and simplifying the process. A school will continue its direct electronic connection to its primary guarantor and/or lender, and the school-based software being used will be modified to allow all other application data to be sent to the appropriate agency's electronic mailbox. With CommonLine, a school may enter, send, and receive Stafford and PLUS loan certification and guarantee results from multiple guarantors through a single point of contact.

The goal of CommonLine is to simplify the loan guarantee process for schools by:

- Establishing common formats used by all participants.
- Allowing schools to use just one school-based software system to communicate with all CommonLine participants.
- Allowing schools to use their current software systems to communicate with organizations with which they currently have no electronic connection.

### How CommonLine Works

The typical steps in the CommonLine loan-origination process are as follows:

*Step 1:*
A school uses its own school-based software to enter loan data and school certification data in a common format and transmits the data using a form of electronic data exchange such as the Internet or File Transfer Protocol (FTP) to participating guarantors or service providers. Only one transmission for all loan data is necessary; the software will sort the data by guarantor, lender, or servicer and electronically send separate files to the appropriate organization.

*Step 2:*
The guarantor or service provider "picks up" the loan data and school certification data and performs normal loan processing functions. These processing functions may include guaranteeing the loan, printing a promissory note, reprinting requests, canceling a loan request, or making corrections. When processing is completed, the guarantor or service provider sorts the CommonLine response records by school, batches them, and transmits the batched records to the school.

*Step 3:*
The school uses its school-based software to retrieve the loan processing results; again, only one transmission is needed. The school completes loan processing after receiving a response file.

Information on CommonLine is available from any FFELP guarantor or from:

National Council of Higher Education Loan Programs, Inc. (NCHELP)
1100 Connecticut Avenue NW
12th Floor
Washington, DC 20036

Phone: (202) 822-2106
Web site: www.nchelp.org

# 7 Loan Origination


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Chapter 7 outlines the lender's role in originating Stafford and PLUS loans.

## 7.1 Reviewing the Loan Request

A lender's review of the loan request includes making both general and specific determinations.

### 7.1.A General Determinations

A lender's general responsibilities in reviewing a borrower's request for a Stafford or PLUS loan include all of the following:

- Determining the borrower's (and the student's, in the case of a PLUS loan) eligibility for a loan. In determining whether a borrower or student meets eligibility requirements, the lender may, except as noted in this section, rely in good faith on the information provided by the borrower, student, and school. The lender is not required to verify loan information independently unless it has reason to believe that the information, as reported, is incorrect (for example, the borrower has failed to report a prior federal education loan default). [§682.206(c)]

- Determining whether the borrower meets the lender's criteria. Each lender is responsible for developing and applying its own lending criteria, which may include restrictions on items such as area of service, types of loans, minimum loan amounts, or credit standards. A lender may not refuse to make a loan because of the applicant's race, national origin, religion, sex, marital status, age, disability, or solely on the basis of a prior bankruptcy. For more information on creditworthiness, see subsection 7.1.B; for more information on bankruptcies, see subsection 7.1.C.

- Determining the loan amount. A lender may, at its discretion, approve a loan amount that is less than the amount for which the borrower might otherwise qualify.

- Determining whether the lender's records conflict with the borrower, student, or school information and resolving any conflicts.

- Determining that the borrower does not currently owe on a defaulted federal education loan held by the lender for which a claim has not been filed.

- For a PLUS loan, determining that the borrower—or endorser, if applicable—does not have adverse credit or retaining a record of the circumstances under which the borrower's adverse credit is considered immaterial with regard to making the loan. (For more information on recordkeeping requirements, see subsection 3.4.A.)

### 7.1.B Creditworthiness

A lender is not prohibited from imposing creditworthiness standards on a Stafford loan applicant. See subsection 7.1.C for additional information regarding Stafford borrower creditworthiness when the borrower has received a bankruptcy discharge.

A parent borrower is not eligible for a PLUS loan if he or she is determined by a lender to have an adverse credit history according to criteria in federal regulations. At the lender's option, a prospective PLUS borrower may obtain a creditworthy endorser if the borrower is otherwise unable to establish creditworthiness. If the PLUS loan applicant is required to obtain an endorser in order to be eligible for the PLUS loan, the student for whom the loan is being obtained cannot serve as the endorser.

If a borrower obtains an endorser or comaker, the lender must ensure that it obtains enough information to collect the loan from the endorser or comaker if necessary. Such information should include, but is not limited to, an address and telephone number.

#### Determining Adverse Credit

To determine whether a prospective PLUS borrower or endorser has adverse credit, the lender must obtain a credit history for the individual from at least one national credit bureau. The credit history should be requested so that it represents the individual's most current credit information before the first day of the period of enrollment for which the loan is intended. A lack of credit history or insufficient credit history is not considered adverse credit for these purposes.

A PLUS loan applicant is considered to have adverse credit if any of the following conditions apply:

- The applicant is 90 days or more delinquent on the repayment of any debt.
- The applicant has had any debt ~~loans~~ discharged in bankruptcy during the 5-year period before the date of the credit report (see subsection 7.1.C).[1]
- The applicant has been the subject of a default determination on any debt, a foreclosure, a tax lien, a repossession, a wage garnishment, or a write-off of a Title IV debt during the 5-year period before the date of the credit report.

A loan that has been discharged as the result of a closed school or false certification claim may not be considered to represent adverse credit.

A lender may use credit standards that are more restrictive than those listed in this subsection—such as an assessment of the applicant's or endorser's ability to repay—provided the standards are applied consistently to all applicants for PLUS loans.
[§682.201(b)(1)(vii)]

#### Loan Approval after Identifying Adverse Credit

If adverse credit is identified in the applicant's credit history, the lender may approve the loan only if it determines that extenuating circumstances exist. The lender must retain a record supporting its decision. (For more information on recordkeeping requirements, see subsection 3.4.A.) Examples of acceptable records include, but are not limited to:

- An updated credit report indicating that the applicant is no longer 90 days or more delinquent.
- An updated credit report correcting the information found on the original credit history that resulted in an adverse credit determination.
- A statement from the creditor that the applicant has made satisfactory arrangements to repay each debt that resulted in the adverse credit determination.
- For each debt of less than $500 that is 90 days or more delinquent, a satisfactory written explanation from the applicant of the reason for the delinquency.

See subsection 7.1.C for additional information regarding PLUS borrower creditworthiness when the borrower has filed a bankruptcy action.

## 7.1.C Effect of Bankruptcy on Creditworthiness

A lender may not deny a Stafford loan to an applicant solely on the basis of a bankruptcy discharge.

In the PLUS loan application process, the lender must consider any debt ~~loans~~ discharged in bankruptcy to be adverse credit. However, if the lender has information on a previous or pending bankruptcy filing by a PLUS loan applicant, the lender may not deny the loan solely based on that filing. See subsection 7.1.B for more information regarding creditworthiness.
[§682.201(b)(1)(vii)(C~~c~~)(2); DCL GEN-95-40][1]

If the lender permits a PLUS loan applicant with adverse credit to obtain an endorser, the lender may consider an endorser's bankruptcy filing to be adverse credit and may deny the loan on that basis.

## 7.2 Reviewing the Promissory Note

The lender must ensure that each loan is supported by a valid promissory note. The following subsections outline the lender's responsibilities pertaining to promissory notes prior to loan disbursement.

## 7.2.A All Promissory Notes

For all promissory notes, the lender must:

- Ensure that either a Master Promissory Note (MPN) or a common PLUS application and promissory note, as applicable, has been properly completed and signed by the appropriate parties.
- Ensure that alterations to any information completed by the borrower, student, or school on the MPN or the common PLUS application and promissory note are legible and initialed, as appropriate.
- Establish the date from which to track the expiration of the MPN. This is the date the borrower signs the MPN. If the borrower fails to date the MPN or provides an erroneous date, the date on which the lender received the MPN may be used.

1. Policy 709 (Batch 108), approved November 20, 2003

## 7.2.B
## Additional Responsibilities under an MPN

The lender has the following additional responsibilities when making loans using the MPN:

- Determining the school's authorization to certify Stafford or PLUS loans using the multi-year feature of the MPN for each subsequent loan made under an existing MPN, based on information provided by the Department.

- Ensuring that either a Confirmation or Notification process is in place for Stafford loans made using the multi-year feature of the MPN. See subsection 8.2.D for Confirmation and Notification requirements.

- Ensuring that a process is in place to obtain the parent borrower's requested loan amount before each loan is disbursed under a PLUS Application and Master Promissory Note (PLUS MPN).

- Determining that the lender retains the right to originate loans using the MPN, if a previous loan made using the MPN has been sold to another holder.

  – If the original lender sells a loan to a new lender but does not assign the origination rights (i.e., the right to make subsequent loans to the borrower under the same MPN), then each lender may own separate loans under the same MPN. In this scenario, these lenders must determine which one of them will possess the original MPN document. Each lender may use the original MPN or a true and exact copy of the MPN to enforce any loans made using that MPN.

  – If the original lender assigns the origination rights, then the original lender may not make new loans under the MPN. The new lender may use the original or a true and exact copy of the MPN to enforce any loans it acquires and any future loans it makes using that MPN.

- Verifying that the loan is supported by a signed MPN and that the ability to make subsequent loans using that MPN has not expired.

- Providing the borrower with a Plain Language Disclosure for each subsequent loan made under the multi-year feature of the MPN.

Under the terms of the MPN, a lender's ability to make subsequent loans to a borrower expires upon the earliest of:

- 12 months after the date the original MPN is signed if no disbursements are made using that MPN.

- 10 years from the date the borrower signs the MPN, or the date the lender receives the MPN if the MPN is not dated. However, if a portion of the loan is disbursed on or before the date that is 10 years from the signature or receipt date, all remaining disbursements for that loan can be made.

- The date the lender receives written notification from the borrower that the MPN may no longer be used as the basis for making additional loans.
  [§682.401(d)(4)(v); DCL GEN-98-25; DCL GEN-99-9; DCL GEN-03-03]

A lender may elect not to make subsequent loans under an existing MPN. The lender's decision may be based on any number of circumstances—for instance, if there is a change in the borrower's circumstances (such as bankruptcy or delinquency), or because the loan is being requested under a Lender of Last Resort Program.
[DCL GEN-98-25]

The lender must ensure that a separate, valid PLUS MPN is in place in the following circumstances:

- The borrower is requesting PLUS loan funds for a different dependent student.

- The PLUS borrower is required to obtain a credit-worthy endorser. If the lender determines that the parent borrower has an adverse credit history and permits the use of an endorser, a separate Endorser Addendum must be completed for each PLUS loan. When an endorser is required, a new PLUS MPN is required for each loan. Any increase in the requested loan amount by the parent borrower must be approved by the endorser and requires a new PLUS MPN and Endorser Addendum.

- The school is located outside of the United States. However, in some circumstances, the Department may notify a school located outside the United States that it is eligible to make loans using the multi-year feature of the MPN.
  [DCL GEN-03-03]

The lender may delegate some or all of the preceding responsibilities to another party. However, the lender remains responsible for ensuring the activities are completed.

## 7.2.C Transfer Students and Promissory Notes

If a borrower has completed a Master Promissory Note (MPN), the borrower may obtain additional loans under the same Stafford Master Promissory Note (Stafford MPN) or PLUS Application and Master Promissory Note (PLUS MPN), as applicable, for a student who transfers, regardless of any change in school or guarantor, provided all of the following apply:

- The new school is not a foreign school.
- The new school has not been notified of restricted multi-year use by the Department.
- The MPN remains valid.
- The new school, lender, or guarantor does not require a new MPN.
- The borrower does not choose a new lender.

If a PLUS loan is made to a parent borrower who completed a PLUS MPN to benefit a dependent student and that student transfers to a school that is not eligible to, or chooses not to, offer the multi-year feature of the PLUS MPN, or if an endorser is required, the borrower must complete a new PLUS MPN for the new school.

If a PLUS loan is made to a parent borrower who completed the common PLUS application and promissory note, the borrower must complete a new common PLUS application and promissory note or a PLUS MPN for the new school. [§682.401(d)(4); DCL GEN-98-25; DCL GEN-99-9; DCL GEN-03-03]

If the Stafford or PLUS loan had been partially or fully disbursed at the previous school, the procedures outlined in subsections 7.7.J and 5.13.B apply.

## 7.3 Processing the Loan Request

A lender's responsibilities in processing a borrower's loan request include the following:

- Approving or denying the loan.
- Notifying the borrower if the loan is denied. When denying a loan request, the lender must, under the Equal Credit Opportunity Act, provide the borrower with a notice (such as a Notice of Adverse Action) explaining the reason for the denial.
- Notifying the borrower if the loan is approved by providing the borrower with initial disclosure information at or before the first disbursement of a loan (see subsection 7.6.A).
- Disbursing the loan in accordance with federal regulations and the original disbursement schedule provided by the school, or any modifications the school makes to that schedule (see section 7.7).
- Reporting and paying the federal origination fee to the Department and the guarantee fee to the guarantor, and collecting the fees from the borrower, as applicable (see sections 7.8 and 7.9).
- Reporting and paying the 0.5% lender origination fee to the Department (this fee cannot be charged to the borrower).
- Complying with state consumer credit laws where applicable (such as marital property disclosure requirements).
- Providing the borrower—and endorser, if applicable—a copy of the executed promissory note. [§682.206; §682.207; DCL GEN-98-25; DCL GEN-99-9]

## 7.4 Establishing Stafford Loan Interest Rates

The formula for calculating the Stafford loan interest rate varies, based on the date the loan was first disbursed.

## 7.4.A
## Current Stafford Interest Rates

The interest rate on all Stafford loans first disbursed on or after July 1, 1994, is a variable rate. A Stafford loan first disbursed on or after July 1, 1998, has a variable interest rate not to exceed 8.25%. The interest rate is adjusted annually on July 1, and that rate remains in effect through June 30 of the following year. During periods when the loan is in an in-school, grace, or authorized deferment status, the interest rate is calculated by adding 1.7% to the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1. During periods when the loan is in a repayment or forbearance status, the interest rate is calculated by adding 2.3% to the 91-day Treasury bill rate.
[HEA 427A(j); HEA 427A(k)(1) and (2)]

The interest rate on any Stafford loan first disbursed before July 1, 1994, was based on whether the borrower was a "new borrower." For purposes of FFELP loans, a "new borrower" was any borrower who had no outstanding balance on a FFELP loan on the date he or she signed the promissory note for a FFELP loan. For loans disbursed before July 1, 1994, if the borrower had an outstanding balance on a Stafford loan on the date the borrower signed the application and promissory note, the borrower's new loan carried the same interest rate as the outstanding loans.

## 7.4.B
## Reduced Stafford Interest Rates

A lender may choose to charge a borrower an interest rate that is lower than the maximum rate permitted by statute (the statutory rate). If a lower rate is charged, the lender must ensure that reports issued to the Department (such as the ED Form 799) are adjusted. See appendix A for more information on ED Form 799 reporting.

A lender must notify the borrower, at the time a lower interest rate is offered, that the lower interest rate ends on the date a default or ineligible borrower claim is purchased by the guarantor. The lender may provide this information in any format. Documentation of the notice must be maintained in the borrower's file. A lender is encouraged to include this documentation (showing that the borrower was informed that the lower interest rate expires upon claim purchase) with default and ineligible borrower claim files. The lender will be required to provide this documentation if a borrower challenges the guarantor or the Department for charging the applicable statutory maximum interest rate during postclaim interest accrual. If the issue goes to court and the decision is in favor of the borrower such that the loan is unenforceable at the statutory maximum interest rate, the lender will be required to repurchase the loan and the guarantee will be withdrawn permanently. The lender may be required to reimburse the guarantor for any court costs or court-imposed fines or penalties.

## 7.4.C
## Previous Stafford Interest Rates

Interest rates applicable to Stafford loans first disbursed before July 1, 1998, are listed in Figure 7-1.

Some fixed-rate Stafford loans have been converted to variable interest rates in accordance with excess interest rebate provisions of the Higher Education Amendments of 1986 and the Higher Education Amendments of 1992. For more information on these provisions, see section H.2 of appendix H.

## 7.4.D
## Resolving Interest Rate Discrepancies on Stafford Loans

If a lender learns that a Stafford loan has been made at an incorrect interest rate, the lender must notify the borrower, guarantor, and the Department, as appropriate, of the correct rate. The borrower must be notified of a change resulting in an increased rate. The lender may note the change by marking and initialing the guarantee disclosure or by sending a separate notice to the borrower. The guarantor may provide the corrected notice to the borrower on the lender's behalf. In some states, the law requires that the borrower sign a new promissory note reflecting the corrected rate.

▲ Lenders may contact individual guarantors for more information on resolving interest rate discrepancies. See section 1.6 for contact information.

Regardless of whether the borrower agrees to the change, the lender is required to report the correct interest rate to the guarantor, in a format acceptable to the guarantor. Also, the lender must review its servicing records and ensure that reports issued to the Department (such as the ED Form 799) are adjusted to reflect accruals at the corrected rate.

The lender must adjust a borrower's principal and interest amount owed if the borrower is entitled to a lower rate.

## Stafford Loan Interest Rates — Figure 7-1

| Disbursement/Loan Period/Borrower Characteristics | Interest Rate |
|---|---|
| First disbursement on/after 7/1/98 | *In-school, grace, and deferment periods:*<br>Variable interest rate—equal to the 91-day Treasury bill* rate plus 1.7%, not to exceed 8.25%<br><br>*Repayment and forbearance periods:*<br>Variable interest rate—equal to the 91-day Treasury bill* rate plus 2.3%, not to exceed 8.25% |
| First disbursement on/after 7/1/95 but before 7/1/98 | *In-school, grace, and deferment periods:*<br>Variable interest rate—equal to the 91-day Treasury bill* rate plus 2.5%, not to exceed 8.25%<br><br>*Repayment and forbearance periods:*<br>Variable interest rate—equal to the 91-day Treasury bill* rate plus 3.1%, not to exceed 8.25% |
| First disbursement on/after 7/1/94 but before 7/1/95 for periods of enrollment that include or begin on/after 7/1/94 | Variable interest rate—equal to the 91-day Treasury bill* rate plus 3.1%, not to exceed 8.25% |
| First disbursement on/after 12/20/93 but before 7/1/94 to a borrower with an outstanding PLUS, SLS, or Consolidation loan, but not a Stafford loan | Variable interest rate—equal to the 91-day Treasury bill* rate plus 3.1%, not to exceed 9% |
| First disbursement on/after 10/1/92 but before 7/1/94 to a "new borrower" with no outstanding FFELP loans | Variable interest rate—equal to the 91-day Treasury bill* rate plus 3.1%, not to exceed 9% |
| First disbursement on/after 10/1/92 but before 12/20/93 to a borrower with an outstanding PLUS, SLS, or Consolidation loan, but not a Stafford loan | Original fixed interest rate of 8%. These loans were subject to excess interest rebates and converted to a variable interest rate—equal to the 91-day Treasury bill* rate plus 3.1%, not to exceed 8%. |
| First disbursement on/after 7/23/92 but prior 7/1/94 to a borrower with an outstanding 7%, 8%, 9%, or 8%/10% Stafford loan | Original interest rate was the same as on the borrower's previous Stafford loans (i.e., a fixed rate of 7%, 8%, 9%, or 8%/10%). These loans were subject to excess interest rebates and converted to a variable interest rate—equal to the 91-day Treasury bill* rate plus 3.1%, with a cap equal to the loan's previous fixed rate (i.e., 7%, 8%, 9%, or 10%). |
| First disbursement before 10/1/92 for a period of enrollment beginning on/after 7/1/88 to a "new borrower" or a borrower who has an outstanding balance on a PLUS, SLS, or Consolidation loan, but not a Stafford loan | Original interest rate of 8% until 48 months of the repayment period have elapsed and 10% thereafter. These loans were subject to excess interest rebates and must be or have been converted to a variable interest rate—equal to the 91-day Treasury bill* rate plus 3.25%, not to exceed 10%. |
| First disbursement to a borrower with an outstanding balance on a PLUS, SLS, or Consolidation loan, but not a Stafford loan, for a period of enrollment before 7/1/88 | Fixed interest rate of 8%. |
| First disbursement to a "new borrower" for a period of enrollment on/after 9/13/83 but before 7/1/88 | Fixed interest rate of 8% |
| First disbursement to a "new borrower" for a period of enrollment on/after 1/1/81 but before 9/13/83 | Fixed interest rate of 9% |
| First disbursement to a "new borrower" for a period of enrollment before 1/1/81 | Fixed interest rate of 7% |

*Based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1. All variable interest rates are adjusted annually on July 1.

## 7.5 Establishing PLUS Loan and SLS Loan Interest Rates

*Previous interest rates applicable to SLS loans are included in this section for lenders that are servicing these loans.*

The formula for calculating the PLUS or SLS loan interest rate varies, based on the date the loan was first disbursed.

### 7.5.A Current PLUS Interest Rate

The initial interest rate for each PLUS loan is determined by the date the loan is disbursed.

A loan that is first disbursed on or after July 1, 1998, has a variable interest rate, not to exceed 9%. The interest rate is adjusted annually on July 1. The variable rate for each July 1 to June 30 period is calculated by adding 3.1% to the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1. [HEA 427A(j)(3); HEA 427A(k)(3); §682.202(a)(2)(vi) and (3)(iv)]

### 7.5.B Reduced PLUS Interest Rates

A lender may choose to charge a borrower an interest rate that is lower than the maximum rate permitted by statute (the statutory rate). If a lower rate is charged, the lender must ensure that reports issued to the Department (such as the ED Form 799) are adjusted. See appendix A for more information on ED Form 799 reporting.

A lender must notify the borrower, at the time a lower interest rate is offered, that the lower interest rate ends on the date a default or ineligible borrower claim is purchased by the guarantor. The lender may provide this information in any format. Documentation of the notice must be maintained in the borrower's file. A lender is encouraged to include this documentation (showing that the borrower was informed that the lower interest rate expires upon claim purchase) with default and ineligible borrower claim files. The lender will be required to provide this documentation if a borrower challenges the guarantor or the Department for charging the applicable statutory maximum interest rate during postclaim interest accrual. If the issue goes to court and the decision is in favor of the borrower such that the loan is unenforceable at the statutory maximum interest rate, the lender will be required to repurchase the loan and the guarantee will be withdrawn permanently. The lender may be required to reimburse the guarantor for any court costs or court-imposed fines or penalties.

### 7.5.C Previous PLUS and SLS Interest Rates

In addition to current interest rates, interest rates applicable to PLUS loans first disbursed before July 1, 1998, and SLS loans first disbursed before July 1, 1994, are listed in Figure 7-2.

## PLUS and SLS Loan Interest Rates — Figure 7-2

| Disbursement/Loan Characteristic | Interest Rate |
|---|---|
| First disbursement on/after 7/1/98 (PLUS loans only) | Variable interest rate adjusted annually on July 1—equal to the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1 of each year plus 3.1%, not to exceed 9% |
| First disbursement on/after 7/1/94 but before 7/1/98 (PLUS loans only) | Variable interest rate adjusted annually on July 1—equal to the weekly average one-year constant maturity Treasury yield * for the last calendar week ending on or before June 26 preceding July 1 of each year plus 3.1%, not to exceed 9% |
| First disbursement on/after 10/1/92 but before 7/1/94 | Variable interest rate adjusted annually on July 1—equal to the weekly average one-year constant maturity Treasury yield * for the last calendar week ending on or before June 26 preceding July 1 of each year plus 3.1%, not to exceed 10% for PLUS loans and 11% for SLS loans |
| First disbursement on/after 7/1/87 but before 10/1/92, or other fixed interest rate PLUS or SLS loans refinanced to secure a variable interest rate | Variable interest rate adjusted annually on July 1—equal to the weekly average one-year constant maturity Treasury yield * for the last calendar week ending on or before June 26 preceding July 1 of each year plus 3.25%, not to exceed 12% |
| First disbursement on/after 11/1/82 but before 7/1/87 | Fixed interest rate of 12% |
| First disbursement on/after 10/1/81 but before 11/1/82 | Fixed interest rate of 14% |
| First disbursement on/after 1/1/81 but before 10/1/81 | Fixed interest rate of 9% |

*The “weekly average one-year constant maturity Treasury yield” index is effective beginning with the interest rate calculation for July 1, 2001. Prior to that date, the index was based on the 52-week Treasury bill auctioned at the final auction held prior to the preceding June 1.

## 7.6
## Borrower Disclosures

Regulations require that certain information be disclosed to the borrower by the lender and guarantor at the time the loan is guaranteed and at or before the first disbursement of the loan.

## 7.6.A
## General Initial Disclosure Requirements

At or before the first disbursement of a Stafford or PLUS loan, the lender must provide the borrower (at no cost to the borrower) with the following initial disclosure information in a written or electronic format:

- The lender's name and the address to which correspondence with the lender and payments should be sent.
- A telephone number accessible at no cost from within the U.S., and, at the lender's option, an electronic address at which the borrower can obtain additional loan information.
- The principal balance.
- The amount of any charges, including the federal origination fee, if applicable, and guarantee fee collected by the lender before or at the time of each disbursement of the loan, and an explanation of whether those charges are being deducted from the loan proceeds or paid separately by the borrower.
- The actual interest rate, including information on how the rate is calculated.
- A statement of the cumulative outstanding balance of loans the borrower owes to the lender, including the loan applied for, and an estimate of—or information that will allow the borrower to estimate—the projected monthly payment amount based on the cumulative outstanding balance.
- A separate statement, written in plain English, that summarizes the borrower's rights and responsibilities with respect to the loan and the consequences of defaulting on the loan. The lender must provide the borrower with either the Borrower's Rights and Responsibilities statement or, in the case of each subsequent loan made using the multi-year feature of the Master Promissory Note, the Plain Language Disclosure, in order to meet the required disclosure of the following information:
  - The annual and aggregate maximum loan amounts that may be borrowed (loan limits).
  - A statement that information on the loan, including the date of disbursement and amount of the loan, will be reported to a national credit bureau.
  - An explanation of when repayment of the loan is required and when the borrower is required to pay interest that accrues on the loan.
  - The minimum and maximum number of years for repayment and the minimum annual payment amount.
  - A statement that the lender may sell or transfer the loan to another party, in which case the address and identity of the party to which correspondence and payments should be sent may change.
  - An explanation of any options the borrower may have for consolidating or refinancing the loan.
  - A statement that the borrower has the right to prepay all or part of the loan at any time, without penalty.
  - A statement describing the circumstances under which the borrower may defer repayment of the principal or accruing interest.
  - A statement of the availability of the Department of Defense program for repayment of loans on the basis of military service.
  - A statement on the consequences of default, including litigation, national credit bureau reporting, liability for substantial collection costs, state offsets or federal Treasury offsets, wage garnishments, and ineligibility for additional federal student aid and assistance under most federal benefit programs.
  - An explanation of how accepting the loan may affect the student's eligibility for other financial aid.
  - An explanation of any costs the borrower may incur in the making or collecting of the loan.

– A statement that the loan proceeds will be transmitted to the school for delivery to the borrower.

If the loan amount, interest rate, or fee amount changes, the lender must provide the corrected information to the borrower. A guarantor may assist the lender with making corrected disclosures by providing a corrected guarantee disclosure to the lender to forward to the borrower.

## 7.6.B Income-Sensitive Repayment Disclosure Requirements

The lender must also provide the borrower, in a written or electronic format, the initial disclosure information on the availability of income-sensitive repayment. By providing the borrower with the promissory note and associated materials approved by the Department, the lender meets the requirements to disclose the following information (issued together or separately):

- A statement that the borrower is eligible for income-sensitive repayment, including through loan consolidation.
- Procedures by which the borrower may choose income-sensitive repayment.
- Where and how the borrower may obtain more information on income-sensitive repayment. [§682.205(a), (b), and (f) through (h)]

## 7.6.C Guarantee Disclosure

When the loan is guaranteed, a guarantee disclosure is sent to or generated by the lender. The lender must review this guarantee disclosure for accuracy. If the lender finds that information on the guarantee disclosure is inaccurate, the information must be corrected. The guarantor may allow the lender to make the corrections and notify the guarantor of the changes—or the guarantor may revise and reissue the guarantee disclosure. If the lender is allowed to make the corrections on the guarantee disclosure, the lender must correct both the lender and borrower copies of the disclosure and initial the corrections, or generate a corrected notice. Some lenders use the guarantee disclosure to fulfill the requirements of an initial borrower disclosure.

▲ Lenders may contact individual guarantors for more information on guarantee disclosure processing. See section 1.6 for contact information.

# 7.7 Disbursing the Loan

Disbursement is the transfer of loan proceeds by the lender to a borrower, school, or escrow agent. Disbursement may be accomplished by checks for individual borrowers, by master checks containing loan proceeds for more than one borrower, or by electronic funds transfer (EFT). [§682.200]

The lender must disburse loans in compliance with federal requirements for the origination of FFELP loans (see subsection 7.1.A). In addition, the lender must comply with information certified by the school on the disbursement schedule and, unless the lender has a separate agreement with the guarantor to disburse funds prior to the issuance of a guarantee (see subsection 3.3.B), the lender must comply with information supplied by the guarantor on the notice of guarantee.

- Any amount disbursed that exceeds the amount on the notice of guarantee will not be insured by the guarantor. Any amount disbursed under an individual agreement with a guarantor that exceeds the amount for which the borrower is eligible will not be insured by the guarantor, if the lender knew or had reason to know that the borrower did not qualify for the excess amount. (See subsection 5.14.C for information regarding ineligibility due to lender error.)
- The lender must not disburse loan proceeds prior to the scheduled disbursement date certified by the school on the disbursement schedule or any revised disbursement date that the school, or the guarantor acting on behalf of the school, subsequently requests.

## 7.7.A Earliest Date for Disbursement

A lender or its disbursing agent must not disburse a Stafford or PLUS loan before obtaining a valid Master Promissory Note (MPN) or common PLUS application and promissory note or MPN, a disbursement schedule provided by the school, and, except with the guarantor's prior approval, a guarantee disclosure from the guarantor.

The lender must disburse the loan according to the original schedule provided by the school, or any modifications the school makes to that schedule. If a lender cannot comply with the scheduled dates (for example, the date for the first disbursement has elapsed when the lender receives the guarantee disclosure), the lender may disburse the proceeds on the earliest possible date after the disbursement date

requested by the school. The lender may not, under any circumstances, disburse proceeds *earlier* than the school's scheduled dates. For more information on how a school schedules disbursement dates, see section 6.4.
[§682.207]

#### Rules That Schools Use in Establishing a Disbursement Schedule

Although schools are responsible for establishing a disbursement schedule that provides for disbursements to be made on a payment-period basis, lenders should be aware that federal regulations prohibit the making of a loan's first disbursement earlier than:

- 13 days before the first day of the first payment period for a loan disbursed by EFT or master check.
- 30 days before the first day of the first payment period for a loan disbursed by individual check.
- The 28th day of the first payment period if the student is a first-year undergraduate, first-time borrower and the school is subject to the delayed delivery provisions for such students, and the loan is disbursed by EFT or master check.

  See Figure 8-4 for information on the earliest dates that loan funds may be disbursed and delivered.
- The first day of the first payment period if the student is subject to the delayed delivery provisions and the loan is disbursed by individual check.

If the loan period for a Stafford or PLUS loan consists of one payment period, and the school is required to schedule multiple disbursements (see subsection 7.7.B), the school must schedule the second or subsequent disbursement so that the disbursement is delivered no earlier than the calendar midpoint between the first and last scheduled days of class of the loan period.

If the loan period for a Stafford or PLUS loan consists of more than one payment period, the earliest date on which a second or subsequent disbursement may be made is:

- 13 days before the first day of any subsequent payment period for a loan disbursed by EFT or master check.
- 30 days before the first day of any subsequent payment period for a loan disbursed by individual check.
  [§668.167(a); §682.207(b)(1)(iii); §682.603(i); §682.604(c)(6)(ii)]

For more information on scheduling disbursements and payment periods, see sections 6.4 and 6.3.

## 7.7.B Multiple Disbursement

Federal regulations require that a lender disburse each Stafford and PLUS loan according to the disbursement schedule provided by the school (see section 6.4). If the school is required to schedule loan disbursement in two or more installments, no installment may exceed one half of the loan amount. If the date on which a disbursement would be made is on or after the earliest date that the subsequent disbursements could be made, the disbursement amount may be the sum of all disbursements scheduled by the school through that date.
[§682.207(c); DCL GEN-90-33]

#### Exceptions to Multiple Disbursement Requirements

A loan made to a student enrolled in a study-abroad program may be made in a single disbursement if the eligible school at which the student will receive course credit for the study-abroad program has a cohort default rate of less than 5% for the most recent fiscal year for which information is available.
[§682.604(c)(10)(ii)]

A school must cease to certify loans based upon this exception no later than 30 days after the date it receives notice from the Department of a FFELP cohort default rate, FDLP cohort default rate, or dual-program cohort default rate that causes the school to no longer meet the necessary qualifications.
[§682.603(g)]

A loan made to a student attending an eligible foreign school also is exempt from the multiple disbursement requirements and may be made in a single disbursement.
[HEA 428G(e); §682.604(c)(10)(iii)]

## 7.7.C Disbursement by Individual Check

A Federal Stafford loan disbursed by an individual check must be made payable to the student or made copayable to the student and the school. A Federal PLUS loan disbursed by an individual check must be made copayable to the parent borrower and the school. The lender must provide the borrower's name and Social Security number on the loan check, and student's name and Social Security number for PLUS loans. The lender must send individual checks for Stafford and PLUS loan borrowers directly to the school,

except in the case of a student enrolled at an eligible foreign school (see subsection 7.7.E).
[§682.207(b)(1)(ii)(A)]

Some guarantors require that Stafford loan checks be made copayable to the student and the school. These requirements are noted in appendix C.

The personal endorsement of or other written certification by the borrower is required for Stafford and PLUS loan disbursement checks to be cashed or deposited in a borrower's account at a financial institution. A check made copayable to the borrower and school must be endorsed by both the borrower and the school. The only exceptions are for study-abroad students or students attending a foreign school when the borrower has granted a power of attorney to another individual not affiliated with the school, in which case that individual must endorse the check or authorize the transfer of funds.

In lieu of a personal endorsement, the school may present the loan check to a financial institution for deposit in a borrower's account pursuant to the borrower's written authorization. This practice constitutes endorsement and does not violate the prohibition against the school or any person associated with the school having the borrower's power of attorney. When a Stafford or PLUS loan borrower provides the school with written authorization to deposit loan proceeds into the borrower's personal bank account, the school must retain documentation in the student's file that the authorization was obtained.
[§682.207(b)(1)(vi)(2)]

## 7.7.D Disbursement by Electronic Funds Transfer (EFT) or Master Check

If the school and lender agree, the lender may disburse Stafford and PLUS loan proceeds by EFT or master check. Such a disbursement must be made to an account maintained by the school as trustee for the lender, the guarantor, the Department, and the borrower. The school must obtain the borrower's written authorization before the proceeds are released from the school's account either to the student's account with the school or directly to the student or parent borrower, as applicable. The borrower authorization for disbursement by EFT or master check is included on the Master Promissory Note (MPN) or can be obtained on the common PLUS application and promissory note. See section 8.3 for more information on authorizations.
[§682.207(b); §682.610(b)(5)]

If the school and lender agree, the lender may disburse loan proceeds by master check from the lender to an account maintained by the school as trustee for the lender.
[§682.207(b)(1)(ii)]

For proceeds disbursed by EFT or master check, the lender must provide the school with a roster (transmittal) listing each borrower's name, Social Security number, the gross amount of the disbursement, and the net amount of the disbursement after the guarantee and origination fees are deducted. For PLUS loans, the roster also must include the name and Social Security number of the student for whom the parent is borrowing. This information may be provided to the school electronically or by fax, overnight mail, or courier.
[§682.207(b)(1)(v)]

Proceeds to be disbursed by EFT or master check may not be transferred to the school's account earlier than the disbursement date provided by the school.

Participation in EFT or master check may require an agreement between the school, lender, or guarantor.

▲ Lenders may contact individual guarantors for more information on disbursement by EFT or master check. See section 1.6 for contact information.

## 7.7.E Disbursement for Students in Study-Abroad Programs or Foreign Schools

If a student is enrolled in a study-abroad program or a foreign school, special disbursement rules apply.

### Student Enrolled in a Study-Abroad Program

A student enrolled in a study-abroad program that is approved for credit by the home institution at which the student is enrolled may request disbursement of a Stafford loan by any of the following options:

- Disbursement directly to the student.
- Disbursement to the student's home institution, if the borrower provides power of attorney to a person not affiliated with the school to endorse the check or complete an electronic funds transfer (EFT) authorization.

- Disbursement to the borrower's personal bank account, if the borrower provides the school with a deposit authorization for that purpose. [§668.165(b)(1); §682.207(b)(1)(v)(C)]

#### Student Enrolled in a Foreign School

If a student is enrolled at an eligible foreign school, upon the student's request, Stafford loan proceeds may be disbursed by either of the following options:

- Disbursement directly to the student.

- Disbursement directly to the school, if the student provides a power of attorney to an individual not affiliated with the school to endorse the check or complete an EFT or master check authorization. [§682.207(b)(1)(v)(D)]

A Federal PLUS loan for a student enrolled in an eligible foreign school must be disbursed by an individual check that is made copayable to the parent borrower and the school. The check must be sent directly to either the parent borrower or the school. [§682.207(b)(1)(v)(B)(3)]

## 7.7.F Reissuing Disbursements

Servicing requirements for reissuing loan disbursements differ based on whether the original disbursement was made during regular disbursement periods or made as a late disbursement.

#### Reissues on Regular Disbursements

A school may request that a lender reissue loan proceeds for a variety of reasons, which may include, but are not limited to:

- The check is lost.

- The school returns the disbursement and requests that the disbursement amount be decreased and the disbursement reissued.

- The school returns the disbursement and requests that the disbursement be reissued to restart the time clock for delivery restrictions.

- The school returns the disbursement and requests that the lender reissue the disbursement to coincide with the date of the student's scheduled return from an approved leave of absence.

When a school determines that a loan disbursement needs to be reissued, the school must submit the request to the lender so the lender may reissue the disbursement no later than 120 days after the earlier of the last day of the period of enrollment for which the loan is intended or the student's last date of at least half-time enrollment.

A lender may reissue a loan disbursement if the original disbursement was made according to the school's disbursement schedule, the loan was canceled or not consummated, and the school subsequently determines that the student should have received the disbursement.

The lender may reissue a disbursement only upon the request of the school, if the school's request is honored.

#### Reissues on Late Disbursements

For proceeds originally disbursed as a late disbursement, the lender must reissue the disbursement no later than 120 days after the date on which the original late disbursement was made. See subsection 7.7.G. for more information about late disbursement.

In exceptional cases, the lender may reissue a loan disbursement more than 120 days after the last date of the student's eligible enrollment or more than 120 days after the date on which the original late disbursement was made, so that the student will not be harmed by circumstances beyond his or her control. The request for reissue under this exception should come from both the student and the school. The lender should document the exceptional circumstances.

Some guarantors have alternative time frames within which schools are required to request reissues. These time frames are noted in appendix C.

#### Interest Accruals on Reissued Disbursements

If the reissued disbursement is for the first or subsequent disbursement of a subsidized Stafford loan, the reissue date determines the subsidized interest accrual start date for that disbursement. See subsection A.1.B for more information regarding the start date for interest subsidy accruals. If the reissued disbursement is for the first or subsequent disbursement of an unsubsidized Stafford or PLUS loan, the reissue date determines the interest accrual start date for

borrower interest. Lenders are responsible for making the appropriate adjustments on ED Form 799. See appendix A for more information on ED Form 799 reporting.

The 120-day monitoring requirement outlined in subsection 7.7.L begins on the date the disbursement is reissued.

#### Documentation on Reissued Disbursements

Lenders must maintain documentation of the reason for a reissued disbursement. Such documentation must include both the original disbursement date and the reissue date.

## 7.7.G
## Late Disbursement

A lender may disburse Stafford or PLUS loan proceeds after the end of the loan period or the date on which the student ceased to be enrolled at least half time only if:

- The school certified the borrower's loan eligibility before the end of the loan period or the date on which the student ceased to be enrolled at least half time, whichever is earlier, and determined that the loan funds will be used to pay educational costs incurred for the period in which the student was enrolled and eligible.

- In the case of a first-year, first-time borrower whose loan is subject to delayed delivery (see subsection 8.7.D), the student completed the first 30 days of his or her program of study.

- In the case of a second or subsequent disbursement, the student graduated or successfully completed the period of enrollment for which the loan was intended. [§682.207(f)]

For information on late delivery requirements for schools, see subsection 8.7.E.

## 7.7.H
## Effect of Loss of School Eligibility on Disbursement

If a lender is notified of a school's loss of eligibility, the lender should immediately cease making first disbursements to students attending the school, and contact the Department or a guarantor regarding disbursements on loans for which first disbursements have already been made.
[§668.26(d)(2)]

## 7.7.I
## Effect of Bankruptcy on Disbursement

When a student files a bankruptcy action before a loan is fully disbursed, the lender must ensure that loan funds are correctly disbursed. Processing differences relate to whether the bankruptcy action requires the filing of a claim with the guarantor or if the lender will simply suspend collections activities on the loan until the conclusion of the bankruptcy action.

#### Bankruptcy Action Resulting in Claim Filing

If a lender holds loans that are not yet disbursed or are partially disbursed at the time the lender is notified of the borrower's bankruptcy filing and if that bankruptcy action will result in the lender filing a bankruptcy claim with the guarantor, the lender is strongly encouraged to:

- Make no additional disbursements on any loan for which the borrower applied and that was approved prior to the borrower's bankruptcy filing.

- Request that the school immediately return any disbursements not delivered by the school to the borrower and cancel the returned funds.

- Advise the borrower of the action taken and that he or she may reapply for the loan funds in the same amount that was not disbursed or that was returned by the school.

#### Bankruptcy Action Not Resulting in Claim Filing

If the bankruptcy action does not require the filing of a claim with the guarantor, the lender may—but is not required to—make subsequent disbursements of a loan. If the lender chooses to make subsequent disbursements, the lender must not ask the school to return any funds not yet delivered by the school to the borrower. If the lender chooses not to make the remaining disbursements, the lender must notify the school, the borrower, and the guarantor of the disbursement cancellations. The lender also must notify the borrower that he or she may reapply for the loan funds in the same amount that was not disbursed. The lender must ensure that decisions to cancel—or not cancel—subsequent disbursements are administered consistently.

If the lender cancels any of the undisbursed or undelivered funds because of the bankruptcy action, the lender must agree to make a new loan for the amount that was canceled or any remaining loan eligibility as determined by the school.

To obtain funds that were canceled due to a bankruptcy filing, the borrower must request loan funds and the school must certify the revised eligibility amount. The lender may also choose to cancel an existing Master Promissory Note (MPN) and require the borrower to sign a new note to obtain loan funds for which the school determines the borrower to be eligible.

In some cases, the Stafford and PLUS borrower may be required by the court to receive approval from the bankruptcy trustee to incur post-petition debt. In these situations, neither the lender nor the school is responsible for ensuring that the borrower has obtained such approval.

Lenders should refer to subsection 12.8.A for more information about filing a claim when a borrower files for bankruptcy.

Some guarantors have different requirements regarding the treatment of disbursements when a lender is notified of a borrower's filing for bankruptcy. These requirements are noted in appendix C.

## 7.7.J Disbursement to Transfer Students

~~When a student transfers between schools at any time, the lender must treat the transfer as a withdrawal for the purposes of disbursing and delivering proceeds.~~ If a student transfers from one school to another before a loan is fully disbursed, the student or parent borrower is not eligible for any remaining disbursements of that loan. Any disbursement not yet made must be canceled.

The student or parent borrower seeking additional ~~education~~ Stafford or PLUS loan funds must reapply at the new school. Until the first loan or the balance of any undisbursed portion of the loan at the prior school has been canceled, some guarantors will be unable to guarantee a ~~second~~ loan for attendance at the new school. To avoid delays in processing the borrower's ~~second~~ loan request at the new school, the lender should instruct the guarantor to cancel the loan or the undisbursed portions of the loan.[1]

For information regarding eligibility requirements specific to transfer students, see section 5.13. For information about determining loan eligibility for a transfer student, see section 6.1. For information about transfer students and promissory notes, see subsection 7.2.C.[2]

1. Policy 721 (Batch 108), approved November 20, 2003
2. Policy 719 (Batch 108), approved November 20, 2003

## 7.7.K Disbursement Cancellation

Canceling a disbursement is a lender function that results in a reduction of a loan's guarantee. There are a number of reasons why it is necessary to cancel a disbursement:

- The student transfers to a new school and must have his or her loan eligibility redetermined at the new school.
- The student no longer wants the disbursement.
- The loan proceeds are not negotiated within 120 days after disbursement.
- The student withdraws or is otherwise no longer eligible for the disbursement.

When a disbursement is canceled, the lender must refund the origination and guarantee fees to the borrower and reduce the borrower's loan amount accordingly. The lender must notify the guarantor of the disbursement cancellation in a format acceptable to the guarantor.

## 7.7.L Consummated and Unconsummated Disbursements

A lender must distinguish, for recordkeeping and reporting purposes, between a consummated and an unconsummated disbursement.

### Consummated Disbursements

A disbursement is consummated if either of the following occurs:

- The disbursement check is negotiated within 120 days after the date of disbursement.
- The EFT or master check funds are released from the account maintained by the school within 120 days after the date of disbursement.

If a consummated disbursement is paid in full by the borrower or the school within 120 days after the date on which it was disbursed, a lender is entitled to receive applicable federal interest benefits and special allowance payments through the date the loan is fully repaid. The borrower may also be entitled to a refund of any guarantee fees and origination fees (see subsection 7.8.C and 7.9.C, respectively).

**Unconsummated Disbursements**

A disbursement is unconsummated if any of the following occurs:

- The disbursement check is returned uncashed to the lender.
- The disbursement check is not negotiated on or before the 120th day after the date of disbursement.
- The EFT or master check funds are not released from the account maintained by the school on or before the 120th day after the date of disbursement.

A lender is entitled to receive applicable federal interest benefits and special allowance payments, unless notified that a disbursement is unconsummated (see subsection A.1.B and A.2.B).

If an unconsummated disbursement is due to a student's withdrawal, the lender must cancel all pending disbursements and advise the guarantor of the cancellation. If an unconsummated disbursement is *not* due to a student's withdrawal, the lender may make, at the request of the school, a subsequent disbursement of the loan. In the latter case, the lender must report the unconsummated disbursement to the guarantor and advise the guarantor, in an acceptable format, not to cancel the loan's guarantee. [§682.207(b)(1)(vii); §682.300(c)(4); §682.302(d)]

If the lender makes a disbursement, not knowing that a previous disbursement was unconsummated, and the subsequent disbursement is consummated, the loan retains its guarantee as long as the lender has notified the guarantor of the subsequent disbursement according to the guarantor's established procedures. The lender is entitled to receive applicable federal interest benefits and special allowance payments on a consummated disbursement with a valid guarantee.

▲ Lenders may contact individual guarantors for more information on procedures for reporting and processing unconsummated disbursements. See section 1.6 for contact information.

## 7.8 Processing Guarantee Fees

All loans disbursed on or after July 1, 1994, for a period of enrollment that either includes or begins after that date, are subject to a maximum 1% guarantee fee.

If the guarantee fee for a loan is not remitted in the time frame established by the guarantor, the guarantor may cancel the guarantee on the loan. If a guarantee is canceled, the loan loses eligibility for interest benefits and special allowance, and no claim will be paid if the borrower later defaults on the loan, dies, or becomes totally and permanently disabled. Once the guarantee is canceled for nonpayment of fees, the guarantor may choose not to reinstate it.

Generally, the lender will receive notification from the guarantor if fees are not paid in a timely manner and if any loan guarantees are going to be canceled.

### 7.8.A Paying the Guarantee Fee

The guarantee fee may be assessed to the lender by the guarantor, and the lender may pass the fee on to the borrower. If the lender is deducting the guarantee fee from the loan proceeds, the fee must be deducted proportionately from the loan disbursements for multiply disbursed loans. The lender is not permitted to deduct the full amount of the fee for a multiply disbursed loan from a single disbursement of the loan.

A lender will receive an invoice for the guarantee fees owed on all loans scheduled for disbursement. The lender must reconcile the invoice for loans actually disbursed and remit payment of the guarantee fees to the guarantor.

### 7.8.B Recalculating the Guarantee Fee

In most cases, a lender will not be required to calculate guarantee fees and will simply pay the guarantee fee amount that appears on the guarantee disclosure.

If required by the guarantor, a lender must recalculate the guarantee fee when the amount of a disbursement is increased or decreased—regardless of whether the loan is fully disbursed. If a disbursement amount has been decreased, the lender need not obtain a new guarantee disclosure. Instead, the lender should amend the original notice to reflect the decreased amount, initial the change, and provide the borrower with a copy of the amended notice. The lender must notify the guarantor of the reduced loan amount.

If a disbursement amount has been increased, the lender must notify the guarantor of the increase and obtain a new guarantee disclosure. The lender must notify the borrower of the revised guarantee.

If the change to the amount originally guaranteed occurs before the first disbursement of a multiply disbursed loan, the lender must recalculate the guarantee fee for all disbursements based on the new loan amount. If the change occurs after the first disbursement, the lender must recalculate only the fee for the subsequent disbursement(s).

▲ Lenders may contact individual guarantor's for more information on guarantee fee recalculation requirements. See section 1.6 for contact information.

## 7.8.C Refunding the Guarantee Fee

A lender must refund the guarantee fee or an appropriate prorated amount of the guarantee fee and apply the refund as a credit to the borrower's principal balance if any of the following conditions exist:

- The loan or any portion of the loan is returned by the school to the lender, at any time, to comply with Title IV program requirements. In the absence of any required notification from the school, the lender may assume that the school is returning funds to comply with these requirements.
- The disbursement check has not been negotiated within 120 days of disbursement.
- The loan proceeds disbursed by electronic funds transfer (EFT) or master check have not been released from the school's account within 120 days of disbursement.

### Borrowers with No Loans in Repayment

If a borrower who has no loans in repayment repays or returns any portion of the disbursement within 120 days of the disbursement, the lender must apply the funds as a cancellation or partial cancellation of the loan and refund the guarantee fee or an appropriate prorated amount of the guarantee fee, as applicable. The lender must apply the refund of the guarantee fee as a credit to the borrower's principal balance. However, the borrower may request in writing that the lender apply funds received from the borrower as a regular payment or prepayment on the loan (see subsection 9.11.A regarding applying regular payments and subsection 9.11.B regarding applying prepayments). The lender must comply with the borrower's request.

### Borrowers with Loans in Repayment

If a borrower has loans in repayment, the lender must apply funds that are repaid or returned by the borrower within 120 days of the disbursement according to its normal payment processing procedures. However, a borrower may request in writing that the lender apply the funds as a cancellation or partial cancellation of the loan. The lender must comply with the borrower's request and refund the guarantee fee or an appropriate prorated amount of the guarantee fee, as applicable.
[§682.401(b)(10)(vi)]

If the lender paid the guarantee fee instead of deducting the fee from the borrower's loan, the lender may retain the guarantee fee and is not required to refund it to the borrower.

## Calculating the Amount of the Guarantee Fee Refund — Figure 7-3

When calculating the amount of a guarantee fee refund, lenders should use the following formula:

$$\frac{\text{Amount Returned to Lender} \times \text{Guarantee Fees Paid to Date on Loan*}}{\text{Net Amount Disbursed to Date*}} = \textbf{Credit Due Borrower**}$$

* Calculate numerator and denominator to four places past the decimal, but do not round.

** Calculate solution to four places past the decimal and round to the nearest whole cent, using standard rounding practices (for example, round $0.0140 to $0.01; $0.0150 to $0.02).

Lenders are strongly encouraged to use this guarantee fee refund formula, or one that results in an equivalent end result, to better ensure that the amount of guarantee fee refund calculated and returned to the borrower will be the same as the amount requested and returned from the guarantor.

## Examples of Calculating Guarantee Fee Refunds — Figure 7-4

Consider the following calculation methodology on a sample loan of $2,625 made in two disbursements with a 1% guarantee fee:

| Sample Loan Terms: | Gross Disbursement Amount | Guarantee Fee (1%) | Origination Fee (3%) | Net Disbursement Amount |
|---|---|---|---|---|
| Disbursement 1 | $1,313.00 | $13.13 | $39.39 | $1,260.48 |
| Disbursement 2 | $1,312.00 | $13.12 | $39.36 | $1,259.52 |
| **Total Loan Amount** | $2,625.00 | $26.25 | $78.75 | $2,520.00 |

**Example 1**
First disbursement made; school returns $1,260.48.

$$\frac{\$1{,}260.48 \text{ (Amount Returned to Lender)} \times \$13.13 \text{ (Guarantee Fees Paid to Date)}}{\$1{,}260.48 \text{ (Net Amount Disbursed to Date)}} =$$

$$\frac{\$16{,}550.1024}{\$1{,}260.48} = \$13.13 \text{ (Credit Due Borrower)}$$

**Example 2**
First disbursement made; school returns $650.58.

$$\frac{\$650.58 \text{ (Amount Returned to Lender)} \times \$13.13 \text{ (Guarantee Fees Paid to Date)}}{\$1{,}260.48 \text{ (Net Amount Disbursed to Date)}} =$$

$$\frac{\$8{,}542.1154}{\$1{,}260.48} = \$6.7768 = \$6.78 \text{ (Credit Due Borrower)}$$

**Example 3**
First and second disbursements made; school returns $650.58.

$$\frac{\$650.58 \text{ (Amount Returned to Lender)} \times \$26.25 \text{ (Guarantee Fees Paid to Date)}}{\$2{,}520 \text{ (Net Amount Disbursed to Date)}} =$$

$$\frac{\$17{,}077.7250}{\$2{,}520.00} = \$6.7768 = \$6.78 \text{ (Credit Due Borrower)}$$

If the borrower paid his or her guarantee fee directly to the lender rather than having the fee deducted from his or her loan, the lender must refund the fee to the borrower instead of applying it as a credit to the loan.

▲ Lenders may contact individual guarantors for more information on requesting a refund of a portion of the guarantee fee. See section 1.6 for contact information.

## 7.9 Processing Federal Origination Fees

Federal origination fees are charged by the Department of Education to offset the costs of the FFELP. Origination fees are assessed on all Stafford and PLUS loans and are paid via the lender's quarterly filing of its Lender Reporting System (LaRS).

### 7.9.A Assessing the Origination Fee

A loan disbursed on or after July 1, 1994, is subject to a maximum 3% federal origination fee.

The origination fee is assessed to the borrower and paid to the Department by the lender. A lender is required to charge origination fees to PLUS borrowers. Although a lender must pay an origination fee to the Department on Stafford loans, the lender is not required to charge that fee to the borrower.
[HEA 438(c)(2) and (c)(6)]

Before the borrower's proceeds can be disbursed, the lender must collect the origination fee from the borrower (unless the lender does not charge the fee to the borrower in the case of a Stafford loan). If the fee is being deducting from the loan proceeds, the fee must be deducted proportionately from the loan disbursements. The lender is not permitted to deduct the full amount of the fee from a single disbursement of the loan.
[§682.202(c)(6)]

#### Charging a Lesser Origination Fee

The lender must ensure that origination fees are assessed equally to all Stafford borrowers who reside in a particular state or attend school in that state. The exception is that the lender may charge a lesser fee to a Stafford borrower who demonstrates "greater financial need" based on any one of the following qualifications:

- The borrower's expected family contribution (EFC), used to determine loan eligibility, is equal to or less than the maximum qualifying EFC for a Federal Pell Grant at the time the loan is certified.
- The borrower qualifies for a subsidized Stafford loan.
- The borrower meets a comparable standard approved by the Department.

If a lender charges a lesser origination fee to a Stafford borrower who has been determined by the lender to have a "greater financial need," the lender must charge all such borrowers who reside in that state or attend school in that state the same origination fee. In addition, if the lender charges the borrower a lesser origination fee on an unsubsidized Stafford loan, the lender must charge the borrower the same fee on a subsidized Stafford loan.
[§682.202(c)(2) and (3)]

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

- All lenders under common ownership, including ownership by a common holding company, that make loans to borrowers in a particular state.
- Any beneficial owner of loans that provides funds to an eligible lender trustee to make loans on the beneficial owner's behalf in a particular state.
  [§682.202(c)(4)]

### 7.9.B Reporting the Origination Fee

A lender must report the full amount of principal disbursed on Stafford and PLUS loans during any given quarter to the Department on its ED Form 799. The lender may report the amount of the origination fees owed for those sums or may permit the Department to calculate the amount of fees owed. All loans canceled or partially canceled, and for which origination fees were already paid, should be reported on the lender's ED Form 799 for a refund of the fee from the Department.
[§682.202(c)]

If a lender owes origination fees, the lender must submit the ED Form 799 to the Department even if the lender is not owed or does not wish to receive interest benefits or special allowance payments. Origination fees should not be sent to the Department when the lender prepares its ED Form 799. Generally, the Department will automatically deduct the amount of origination fees that the lender owes from the amount of interest benefits and special allowance payments the Department owes the lender. The exceptions are if the total origination fees exceed the amount of interest benefits and special allowance payments due from the Department, or if the lender has not submitted an acceptable ED Form 799 in a timely manner.

If the total origination fees due the Department in a given quarter exceed the sum of interest benefits and special allowance payments due the lender in the same quarter, the Department may deduct the remaining unpaid fees from subsequent quarterly payments to the lender until the total origination fees are paid. If the full amount of the fees cannot be collected within two quarters, the Department may collect the unpaid amount directly from the originating lender. Loans that have been canceled will result in a refund of origination fees to the lender and, subsequently, to the borrowers. The remaining interest benefits and special allowance payments will be forwarded to the lender by EFT or check from the Department, generally no more than 30 days following the date on which the lender's accurate report is received by the Department's processing center.

If an originating lender sells or otherwise transfers a loan, the originating lender remains liable for payment of the origination fees to the Department. If the full amount of the fees cannot be collected from the originating lender, the Department may, following written notice, deduct the unpaid fees from subsequent quarterly payments to the holder until the sum of the outstanding origination fees are paid. If the full amount of the fees cannot be collected by deducting them from quarterly payments to the holder within two quarters, the Department may collect the unpaid amount directly from the holder. The Department will not pay interest benefits or special allowance payments to the holder or pay reinsurance to the guarantor until the origination fees are paid.

For further information on origination fees and ED Form 799, see appendix A.

## 7.9.C Refunding the Origination Fee

A lender must refund the origination fee, or an appropriate prorated amount of the origination fee, and apply the refund as a credit to the borrower's principal balance if any of the following conditions exist:

- The loan or any portion of the loan is returned by the school to the lender, at any time, to comply with Title IV program requirements. In the absence of any required notification from the school, the lender may assume that the school is returning funds to comply with these requirements.
- The disbursement check has not been negotiated within 120 days of disbursement.
- The loan proceeds disbursed by electronic funds transfer (EFT) or master check have not been released from the school's account within 120 days of disbursement.

### Borrowers with No Loans in Repayment

If a borrower who has no loans in repayment repays or returns any portion of the disbursement within 120 days of the disbursement, the lender must apply the funds as a cancellation or partial cancellation of the loan and refund the origination fee or an appropriate prorated amount of the origination fee, as applicable. The lender must apply the refund of the origination fee as a credit to the borrower's principal balance. However, the borrower may request in writing that the lender apply funds received from the borrower as a regular payment or prepayment on the loan (see subsection 9.11.A regarding applying regular payments and subsection 9.11.B regarding applying prepayments). The lender must comply with the borrower's request.

### Borrowers with Loans in Repayment

If a borrower has loans in repayment, the lender must apply funds that are repaid or returned by the borrower within 120 days of the disbursement according to its normal payment processing procedures. However, a borrower may request in writing that the lender apply the funds as a cancellation or partial cancellation of the loan. The lender must comply with the borrower's request and refund the origination fee or an appropriate prorated amount of the origination fee, as applicable.
[§682.202(c)(7)]

If the lender paid the origination fee instead of deducting the fee from the borrower's loan, the lender may retain the origination fee and is not required to refund it to the borrower.

If the borrower paid the origination fee directly to the lender rather than having the fee deducted from his or her loan, the lender must refund the origination fee to the borrower instead of applying it as a credit to the loan.

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# 8 Loan Delivery


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Chapter 8 describes requirements and procedures that pertain to the school's delivery of Stafford and PLUS loan proceeds.

Loan delivery encompasses a school's processing of Stafford and PLUS loan proceeds and delivery of those proceeds to borrowers and students. Provisions governing these processes are outlined in this chapter, 34 CFR Part 668, and 34 CFR Part 682. In 34 CFR 668, Subpart K, the use of the term "disburse" means the same as "deliver loan proceeds" under the FFELP regulations. For purposes of clarity, the *Common Manual* uses the term "disbursement" for lender activities and the term "delivery" for school activities.

At a school, the function of authorizing payment must be separated from delivering proceeds so that no office has responsibility for both functions with respect to any particular student aid under Title IV programs. The two functions must be carried out by at least two organizationally independent individuals who are not members of the same family.
[§668.16(d)]

## 8.1 Managing Loan Funds

Stafford or PLUS loan proceeds received by a school are held in trust for students, lenders, guarantors, and the Department. The school must exercise the care and diligence required of a fiduciary in maintaining these funds.

Generally, a school is not required to maintain a separate account for Stafford or PLUS loan proceeds and may commingle Stafford or PLUS loan proceeds with other Title IV proceeds as well as with non–Title IV proceeds. In maintaining Title IV proceeds, the school must do one of the following:

- Ensure that the name of the account contains the phrase "federal funds."
- Notify the bank or investment company of the accounts that contain Title IV proceeds and retain a record of that notice. In addition, a nonpublic school must file a UCC-1 statement with the appropriate state or municipal government entity disclosing that the account contains federal funds and maintain a copy of that statement.

In addition, the school must:

- Maintain Title IV proceeds in a bank or investment account that is federally insured or secured by collateral of value reasonably equivalent to the amount of those proceeds.
- Maintain accounting and internal control systems that identify the cash balances of each Title IV program that is included in the school's bank or investment account as readily as if those program funds were maintained in a separate account.
- Maintain accounting and internal control systems that identify the earnings on Title IV program funds maintained in the school's bank or investment account.
- Comply with the recordkeeping and reporting requirements in subpart B of the Student Assistance General Provisions of the federal regulations.
- Comply with applicable program regulations. [§668.163]

If the school fails to comply with any of these requirements or the Department places the school on the reimbursement payment method, the school may be required to maintain Stafford or PLUS loan proceeds in a separate account. For more information on requirements for schools that have been placed on the reimbursement payment method, see section 6.15.
[§668.167(d)(3)(ii)]

## 8.2 Required Notices

The school is required to provide certain notices to the borrower, or in the case of a PLUS loan, to the borrower and dependent student, regarding certain aspects of the loan process and characteristics of the loans themselves. The timing of these notices is generally prescribed in regulation to coincide with specific events related to loan delivery.

## 8.2.A
## Initial Notice of Funds

Prior to delivering any Title IV funds to the student or parent borrower, the school is required to send a notice to the student providing information about the amount of funds that the student or his or her parent can expect to receive under each program in the FFELP. Regulations require this notice (e.g., award letter) to be sent only to the student. The notice must include:

- The amount of proceeds the student or his or her parent can expect to receive for each loan type. For Stafford loans made using a Master Promissory Note (MPN), the school's award letter may include proposed loan amounts and loan types. It may also include instructions to the borrower either to accept the aid offered by responding to the school or to take action only if requesting a cancellation or reduction of the loan amount offered (see subsection 8.2.D for Notification and Confirmation requirements).

- When the proceeds will be delivered and by what method.

- Which proceeds are from subsidized and unsubsidized Stafford loans, PLUS loans, and other Title IV programs.
  [DCL GEN-98-25; DCL GEN-99-9]

## 8.2.B
## School Notice of Credit to Student Account

The school must notify the student or parent borrower if the school credits a student's school account with Stafford or PLUS loan proceeds. This notice must be issued no earlier than 30 days before and no later than 30 days after the school credits the student's account. The notice may be written or electronically transmitted and must include:

- The date and amount of the disbursement.

- For proceeds disbursed by EFT or master check, a statement explaining the student or parent borrower's right to cancel all or a portion of the loan or loan disbursement and have the proceeds returned to the lender.

- The method and date by which the student or parent borrower must notify the school that he or she wishes to cancel all or a portion of the loan or loan disbursement.

## 8.2.C
## Borrower Notice to Cancel Loan

A student or parent borrower must inform the school if he or she wishes to cancel all or a portion of a loan or loan disbursement. The school must return the loan proceeds, cancel all or a portion of the loan or loan disbursement as applicable, or do both if the school receives a cancellation request in either of the following time frames:

- Within 14 days after the date the school sends the notification advising the student or parent borrower the school has credited the student's account at the school.

- By the first day of the payment period, if the school sends the notification more than 14 days prior to the first day of the payment period.

### Late Requests

If a student or parent borrower requests cancellation of the loan after the 14-day period or the first day of the payment period, as applicable, the school may, but is not required to, return the loan proceeds, cancel all or a portion of the loan or loan disbursement, or do both.

### Funds Delivered prior to Request

If, prior to the receipt of the borrower's cancellation request, the school delivered all or a portion of the loan proceeds directly to the borrower or the student, the school is responsible only for canceling and returning that portion of the loan proceeds that the school credited to the student's school account to pay authorized charges. The borrower is responsible for returning to the lender any additional amount.

### School Notice of Outcome

A school is required to inform a student or parent borrower, either in writing or through electronic transmission, of the outcome of any cancellation request.
[§668.165(a)]

## 8.2.D Notification and Confirmation Requirements for the Multi-Year Feature of the MPN

The school and lender, or guarantor on behalf of the school and lender, must ensure and document that a process is in place for providing either Confirmation or Notification for subsequent loans made using the multi-year feature of the Stafford Master Promissory Note (Stafford MPN). A Notification or Confirmation process informs the student of the proposed loan types and amounts being awarded for the loan period and should increase the borrower's understanding of his or her loan obligations.

The Notification or Confirmation process may be part of or may supplement the existing required notices and disclosures described in this subsection. Although the initial disclosure constitutes a notification, it must be supplemented by another Notification or Confirmation process by the parties described below.

> *Notification* is a process by which the school, lender, or guarantor (on behalf of the school or lender) notifies the borrower of the proposed loan types and amounts. The borrower is required to take action only to reject or adjust the type or amount of the loan.
>
> *Confirmation* is a process by which the school, lender, or guarantor (on behalf of the school or lender) advises the borrower of the proposed loan types and amounts. The borrower must take action to confirm the loan type or request a specific loan amount. A school, lender, or guarantor (on behalf of the school or lender) may establish Confirmation for the entire loan or may request that the borrower confirm each disbursement of the loan.
> [§682.401(d)(4)(vi); DCL GEN-98-25; DCL GEN-99-9]

## 8.3 Required Authorizations

A school must have written authorization from a student or parent borrower, as applicable, to perform the following activities:

- Deliver Stafford or PLUS loan proceeds received by EFT or master check to the student or parent borrower.
- Use the Stafford or PLUS loan proceeds to pay for current-year charges other than tuition, fees, and contracted room and/or board (see subsection 8.7.H).
- Deliver Stafford or PLUS loan proceeds to the borrower's personal bank account.
- Hold a credit balance on behalf of the student or parent borrower, unless prohibited by the Department.
- Use Stafford or PLUS loan proceeds for the current year to pay for minor prior-year charges (see subsection 8.7.H).
  [§668.164(c)(3) and (d); §668.165(b)]

When obtaining an authorization for any of these activities, a school may not require or coerce the student or parent borrower to provide the authorization. In addition, the school must allow the student or parent borrower to cancel or modify the authorization at any time. The school also must clearly explain to the borrower how the school will carry out the activity.
[§668.165(b)(2)(i) through (iii)]

The authorization is valid for the entire period during which the student is enrolled at the school, unless the authorization is canceled or modified by the student or parent borrower.

## 8.3.A Authorization Modifications and Cancellations

If the student or parent borrower requests that an authorization be modified, the modification becomes effective on the date the school receives the request.
[§668.165(b)]

If the student or parent borrower requests cancellation of his or her authorization to use loan proceeds to pay authorized charges, the school may use those proceeds to pay only those charges incurred by the student prior to the date the school received the cancellation.

If a student or parent borrower cancels the authorization for the school to hold a credit balance, the school must pay those proceeds directly to the student or parent borrower as soon as possible, but no later than 14 days after the date the school receives the cancellation.
[§668.165(b)(4)(iii)]

For more information on when a borrower must provide written authorization to the school, see Figure 8-1.

## 8.3.B Authorization for Release of EFT/Master Check Disbursements

For Stafford or PLUS loans made using a Master Promissory Note (MPN), the school is not required to obtain a separate borrower authorization statement to permit the transfer of loan proceeds received by EFT or master check to the student's account because the authorization is included on the MPN.
[DCL GEN-98-25; DCL GEN-99-9; DCL GEN-03-03]

For PLUS loans made using a common application and promissory note, the borrower must provide written authorization for the release of proceeds received by EFT or master check from the school's account. The borrower's signature on the authorization cannot be delegated to any individual or entity through power of attorney or other means.

The written authorization may be obtained on the common application and promissory note or on a separate form. The authorization must be obtained at or before the release of the first disbursement.
[§682.207(b); §682.604(c)(3)]

For authorizations obtained on separate forms, at least one authorization form must be obtained for each loan. However, authorizations for multiple loans (such as a subsidized and an unsubsidized Stafford loan) may be obtained at the same time. One authorization form may serve for all disbursements of a multiply disbursed loan. The school or lender (on the school's behalf) may obtain the borrower's written authorization using either of the following methods:

- Obtain one authorization form per disbursement, if the borrower signs each form.
- Obtain one authorization form per loan covering all disbursements of the loan, where the borrower signs once on the form.

One copy of the signed authorization form may be given to the borrower, and a copy must be retained by the school. If the lender obtains the authorization form directly from the borrower on the school's behalf, the lender must send the original form to the school. The lender may choose to retain or request a copy of the signed form.

After receiving a borrower's written authorization, the school may credit the registered student's account or directly deliver the proceeds to the registered student according to the prompt delivery guidelines outlined in subsection 8.8.A.
[§682.604(c)]

If the borrower fails to authorize the release of proceeds received by EFT or master check and the proceeds are deposited in the school's account, the school may issue an individual check to the borrower. The school must obtain the borrower's endorsement on the check, apply the proceeds to cover the student's tuition, fees, room and/or board, and release any credit balance to the borrower in accordance with the time frames specified in subsection 8.8.A.

## FFELP Written Notification/Authorization Requirements — Figure 8-1

Before a school delivers any Stafford or PLUS loan proceeds, the school must notify the student of the amount of proceeds that the student or his or her parent can expect to receive, when and by what method the proceeds will be delivered, and which proceeds are from subsidized Stafford, unsubsidized Stafford, or PLUS loans.

| Activity | Additional Notification Required | Authorization Required |
|---|---|---|
| Deliver loan proceeds received by EFT or master check [§682.604(c)(3)] | No | Yes[1] |
| Credit loan proceeds to student's account for tuition, fees, and room and board [§668.165(a)(1) and (2)] | Yes[3] | No |
| Credit student's account for other educationally related costs (current year only) [§668.164(d)(2)] | Yes[2,3] | Yes[2] |
| Deliver loan proceeds to borrower's personal bank account [§668.165(b)(1)] | No | Yes[2] |
| Hold credit balance on behalf of the student or parent borrower for budgetary purposes [§668.165(b)(1)] | No | Yes[2] |
| Pay minor prior-year charges [§668.164(d)(2)] | No | Yes |

1 The required authorization is included on the MPN. For loans made using the common PLUS application and promissory note, the required authorization must be collected on the application and promissory note or on a separate written authorization. The authorization must be obtained at or before the release of the first disbursement.

2 School must allow student (or parent, if applicable) to cancel or modify his/her written authorization.

3 If the school credits the student's account at the school, the school is also required to notify the student or parent borrower of the credit no earlier than 30 days before and no later than 30 days after the date the school credits the student's account with loan proceeds. The notification must advise the student or parent borrower that he or she may cancel all or a portion of the loan or loan disbursement.

## 8.4
## Assessing Satisfactory Academic Progress

Federal regulations require that a school measure a student's satisfactory academic progress (SAP) in accordance with the school's published SAP policy before delivering the loan proceeds. At some schools, SAP verification is performed before the delivery of each disbursement, while at others, SAP may be assessed at specific times during the academic year, such as at the beginning of each term.
[§668.32(f)]

A school's SAP standards must be applied consistently, and must include both a qualitative and a quantitative measure. A maximum time frame for program completion and a minimum quality standard, such as grade point average, must be established. A student's quantitative progress must be assessed each academic year, at a minimum. Federal regulations permit a school to establish its own maximum time frame for program completion, provided the school's time frame for an undergraduate program does not exceed 150% of the published program length.
[§668.16(e); §668.32(f)]

In measuring SAP for subsequent disbursements, the school is not required to develop a system that is separate from the system the school already has established for verifying progress for subsequent disbursements of other Title IV Programs. However, the progress standards for Title IV aid recipients must be at least as restrictive as those used for students not receiving aid.

## 8.5
## Completing Verification

The school may not deliver loan proceeds before the verification process is complete, if verification is required (see subsection 6.6.A). If the school does not receive the required financial aid information, or if the student does not complete the verification process within 45 days from the date the school receives the proceeds, the school must return the proceeds to the lender promptly, but no later than 10 business days after the last day of the 45-day period. If, during the 10-business-day return period, all financial aid information is received or the verification process is completed, the school may deliver the proceeds rather than return them to the lender, provided the delivery is made on or before the last day of the return period.

## 8.6
## Managing Overawards

Overawards are applicable only to Stafford loans; they do not apply to PLUS loans or to loans made to students enrolled in eligible foreign schools.

An overaward occurs when a student receives additional financial assistance or the student's expected family contribution (EFC) increases, which results in a change in the student's eligibility for a previously certified Stafford loan. Up to $300 of Federal Work-Study earnings are excluded from the determination of an overaward.

The school must reduce or eliminate an overaward using one of the following options:

- Use the student's unsubsidized Stafford, PLUS, state-sponsored, or private loan to cover the EFC, if not already done.

- Return the entire undelivered disbursement to the lender or escrow agent and provide the lender with a written statement describing the reason for the return of proceeds and the student's revised financial need. The school should request that the lender redisburse the revised amount and, if necessary, revise subsequent disbursements to eliminate the overaward.

- Return to the lender the portion of the disbursement for which the student is ineligible and provide the lender with a written statement explaining the return of proceeds.
  [§682.604(h) and (i)]

▲ Schools may contact individual guarantors for more information on procedures for reducing or eliminating overawards. See section 1.6 for contact information.

If a school determines that an overaward exists, it must contact the lender or guarantor promptly to request an adjustment to the amount of each remaining disbursement. If all disbursements of the loan have been delivered to the student before the overaward occurs, no adjustment is required under current federal regulations. However, the school may adjust campus-based aid, as appropriate, to offset the student's receipt of Title IV funds.
[§682.604(h)]

## 8.7
## Delivering Loan Funds at Eligible Schools

The school must hold Stafford and PLUS loan proceeds until the student is enrolled in classes for the applicable payment period. (For more information on payment periods, see section 6.3.) The school must deliver loan proceeds on a payment-period basis in substantially equal installments, with no installment exceeding one half of the loan amount. For a loan period that consists of more than one payment period, the school must deliver loan proceeds at least once in each payment period. If a loan period consists of only one payment period, the school must deliver loan proceeds at least twice during that payment period (see subsection 7.7.B, subheading "Exceptions to Multiple Disbursement Requirements").
[§668.164(b)(1); §682.604(c)(6) and (9)]

A school must ensure that it does not deliver the proceeds of a Stafford loan to a student who has lost his or her eligibility to receive the loan, or for whom the school never certified a loan. A school also must ensure that it does not deliver the proceeds of a PLUS loan to a student (to whom the parent borrower authorized the delivery of proceeds) if the student and/or the parent borrower has lost his or her eligibility to receive the loan, or if the school never certified a loan.

A school may deliver the proceeds of any loan disbursement only if it determines that the student has maintained continuous eligibility for the loan period certified by the school.
[§668.164(b); §682.604(b)(2)(i)]

Figure 8-3 illustrates a school's required activities before delivering a FFELP loan.

## 8.7.A
## Delivery Time Frames

The time frame within which schools must deliver or return loan proceeds covers three separate periods:

- **Initial Period** — A period of time a school has to deliver loan proceeds directly to the student or parent borrower, or to credit the student's account at the school. The length of this period of time is determined by whether the proceeds were received by the school by electronic funds transfer (EFT), master check, or individual check.

- **Conditional Period** — A 10-business-day delivery period after the last day of the initial period. A school may deliver funds during this period only if the school expects the student to complete the required number of clock or credit hours in a preceding payment period, or the school expects the student to meet all FFELP eligibility requirements within the conditional period.

- **Return Period** — A 10-business-day period following the initial or conditional period, as applicable, during which the school must return undelivered proceeds to the lender. If, during the return period, the school determines that the student has become eligible to receive the loan proceeds, the school may deliver the proceeds rather than return them to the lender, provided the delivery is made on or before the last day of the return period.
[Department of Education Policy Bulletin dated June 2, 1997]

### Initial Period Activities

For Stafford or PLUS loan proceeds disbursed by EFT or master check, the school must do one of the following:

- Deliver the loan proceeds directly to the student or parent borrower within the initial period of 3 business days after the school's receipt of the loan proceeds.

- Credit the student's account within the initial period of 3 business days after the school's receipt of the loan proceeds and deliver directly to the student or parent borrower the remaining loan proceeds in accordance with the time frames specified in subsection 8.8.A.
[§668.164(a); §668.167(b)(1)(ii); §682.604(c)(3)]

For Stafford loan proceeds disbursed by an individual check that requires the endorsement of the borrower only, the school must deliver the check to the borrower within the initial period of 30 days after the school's receipt of the check.

For Stafford or PLUS loan proceeds disbursed by an individual check that requires the endorsement of both the borrower and the school, the school must do one of the following within the initial period of 30 days after the school's receipt of the check:

- In the case of the initial disbursement, endorse the check on its own behalf and, after the student has registered, deliver it to the student or parent borrower, as applicable.

- Obtain the borrower's endorsement on the check, endorse the check on its own behalf, and, after the student has registered, credit the student's account.

If the Department has placed the school on the reimbursement payment method, the school may delay the delivery of proceeds disbursed by EFT or master check for an additional 30 days after the initial 10-business-day delivery period (or the initial 3-business-day delivery period for proceeds received by the school on or after July 1, 1999). This extra time will allow the school to complete any additional administrative requirements that the Department has prescribed as part of the reimbursement payment method. For additional information on requirements for delivery of loan proceeds, section 6.15. [§668.167(c) and (d)]

#### Conditional and Return Period Activities

The school is expected to deliver the loan proceeds within the initial period. The school may delay delivery of loan proceeds for a conditional period of 10 business days after the last day of the initial period if, within this conditional period, the school expects the student to complete the required number of clock or credit hours in a preceding payment period or the school expects the student to meet all FFELP eligibility requirements. The school is encouraged to document the reason for holding loan proceeds for delivery within this conditional period. This provision does not apply to students for whom verification has not been completed or financial aid information (i.e., financial aid transcript or equivalent National Student Loan Data System [NSLDS] information) is missing.

If the school does not deliver loan proceeds within the initial or conditional period, the school must return the proceeds to the lender promptly, but no later than 10 business days after the last day of the initial or conditional period. If, during the return period, the school determines that the student has become eligible to receive the loan proceeds, the school may deliver the proceeds rather than return them to the lender, provided the delivery is made on or before the last day of the return period.

For purposes of returning undelivered proceeds to the lender, the term "promptly" means that a school may not delay initiating and completing its normal return process. "Returning the proceeds promptly, but no later than 10 business days" means that the school must either mail a check or initiate an electronic funds transfer to the lender by the close of business of the last day of the return period. [Department of Education Policy Bulletin dated June 2, 1997]

Figure 8-2 provides examples of time frames for returning loan proceeds to the lender.

## Examples of Time Frames for Delivering and Returning Loan Proceeds — Figure 8-2

| | Example 1 | Example 2 | Example 3 | Example 4 |
|---|---|---|---|---|
| *Receipt of loan proceeds* | School receives loan proceeds by individual check on July 6, 1999. | School receives loan proceeds by EFT or master check on July 6, 1999. | School receives loan proceeds by individual check on July 6, 1999. | School receives loan proceeds by EFT or master check on July 6, 1999. |
| *Latest initial delivery date* | Latest initial delivery date in this case is August 5, 1999 (30 days after receipt). | Latest initial delivery date in this case is July 9, 1999 (3 business days after receipt). | Latest initial delivery date in this case is August 5, 1999 (30 days after receipt). Student does not meet eligibility requirements.<br><br>School delays delivery of loan proceeds for conditional period or 10 business days because the school expects the student to meet the eligibility requirements during the conditional 10-business-day period. The last day of the conditional period of 10 business days is August 19, 1999. | Latest initial delivery date in this case is July 9, 1999 (3 business days after receipt).<br><br>School delays delivery of loan proceeds for conditional period or 10 business days because the school expects the student to meet the eligibility requirements during the conditional 10-business-day period. The last day of the conditional period of 10 business days is July 23, 1999. |
| *Reason for returning loan proceeds* | Student advises school that he or she does not want the loan proceeds. | Student advises school that he or she does not want the loan proceeds. | Student fails to meet eligibility requirements in the conditional 10-business-day period. | Student fails to meet eligibility requirements in the conditional 10-business-day period. |
| *Deadline for returning loan proceeds* | School must return loan proceeds no later than August 19, 1999 (10 business days after latest initial delivery date). | School must return loan proceeds no later than July 23, 1999 (10 business days after latest initial delivery date). | School must return loan proceeds no later than September 2, 1999 (10 business days after last day of the conditional period).<br><br>Note: If, during the return period, the school determines that the student has become eligible to receive the loan proceeds, the school may deliver the proceeds rather than return them to the lender, provided the delivery is made on or before the last day of the return period. | School must return loan proceeds no later than August 6, 1999 (10 business days after last day of the conditional period).<br><br>Note: If, during the return period, the school determines that the student has become eligible to receive the loan proceeds, the school may deliver the proceeds rather than return them to the lender, provided the delivery is made on or before the last day of the return period.<br>[§668.167 (b) and (c)] |

## 8.7.B
## Delivering Second and Subsequent Disbursements

Time frames for issuing second or subsequent disbursements are dictated by the loan period and the school's methods for measuring the student's academic progress.

### One Payment Period

If the loan period consists of only one payment period, the school may not deliver a second or subsequent disbursement earlier than the calendar midpoint between the first and last scheduled days of class for the loan period.

### Credit Hours—Standard or Equal Terms

The school may not deliver a second or subsequent disbursement earlier than 10 days before the first day of any payment period for an eligible program that measures academic progress in credit hours and that uses a standard semester, trimester, or quarter system, or for programs that do not use a standard semester, trimester, or quarter system but that use terms that are substantially equal in length for a loan period. Terms are substantially equal in length if no term within the loan period is more than two weeks longer than any other term in that loan period.

### Credit Hours—No Terms or Unequal Terms

The school may not deliver a second or subsequent disbursement for an eligible program that measures academic progress in credit hours and either does not use terms, or does not use terms that are substantially equal in length for a loan period, until the later of:

- The calendar midpoint between the first and last scheduled days of class of the loan period.
- The date the student completes one half of the academic coursework in the loan period, as determined by the school.
  [§682.604(c)(7)]

### Clock Hours

The school may not deliver a second or subsequent disbursement for an eligible program that measures academic progress in clock hours, until the later of:

- The calendar midpoint between the first and last scheduled days of class for the loan period.
- The date the student completes one half of the clock hours in the loan period.
  [§668.164(f); §682.604(c)(6) through (8)]

In determining whether the student has completed clock hours in a payment period, a school may include clock hours for which the student has an excused absence if the school has a written policy that permits excused absences and the number of excused absences does not exceed the lesser of:

- The number of excused absences permitted under the policy of the school's accrediting agency.
- The number of excused absences permitted under the policy of any state agency that licenses the school or legally authorizes the school to operate in the state.
- 10% of the clock hours in the payment period.
  [§668.164(b)(3)]

## 8.7.C
## Early Delivery

The school may deliver a registered student's loan proceeds before the first day of classes (unless the student is subject to delayed delivery) after verifying that the student is registered at least half time and, for a continuing student, is maintaining satisfactory academic progress (SAP).

### Credit-Hour Programs Using Standard Terms

If the student is enrolled in a credit-hour program that is offered in semester, trimester, or quarter academic terms, the earliest a school may directly pay or credit the account of a registered student not subject to delayed delivery, or pay the parent borrower in the case of a PLUS loan, is 10 days before the first day of the payment period.

### Clock-Hour and Nonstandard Term-Based Programs

If the student is enrolled in a clock-hour program or a credit-hour program that is not offered in semester, trimester, or quarter academic terms, the earliest a school may directly pay or credit the account of a registered student who is not subject to delayed delivery, or pay the parent borrower in the case of a PLUS loan, is the later of:

- 10 days before the first day of the payment period.
- The date the student completes the previous payment period for which the student received FFELP proceeds.
  [§668.164(f)]

See Figure 8-4 for information on the earliest dates that loan funds may be disbursed and delivered. Refer to subsection 8.7.B for additional provisions related to second or subsequent disbursements.

#### Applying Estimated Amounts

When a school credits an estimated amount of school funds to a student's account in advance of the receipt of FFELP proceeds, and this occurs earlier than 10 days before the first day of the payment period, the Department considers the loan proceeds to have been delivered on the 10th day before the first day of the payment period. If the school does not record the advance funds as an estimated amount, the Department considers the delivery to have occurred on the date the school recorded the credit to the student's account at the school.
[§668.164(a)(2)]

## 8.7.D Delayed Delivery

Except for an eligible foreign school, a school must not deliver the first disbursement of a Stafford loan to a first-year undergraduate student who is a first-time borrower (that is, a student who has not successfully completed the first year of the program of study in which he or she is currently enrolled and who has not previously received a FFELP or Direct Stafford or SLS loan) until the student completes the first 30 days of his or her program of study. Delivery includes crediting proceeds to the student's account as well as delivering proceeds directly to the student. Before the delivery of proceeds, the school must confirm the student's eligibility.

See Figure 8-4 for information on the earliest dates that loan funds may be disbursed and delivered.

#### Foreign School Exemption

An eligible foreign school is exempt from the requirement to delay delivery of funds to first-year undergraduate students who are first-time borrowers.
[§682.604(c)(5)]

#### Applying Estimated Amounts

When a school credits an estimated amount of school funds to a student's account in advance of the receipt of FFELP proceeds, and this occurs earlier than the 31st day of the first payment period, the Department considers the loan proceeds to have been delivered on the 31st day. If the school does not record the advance funds as an estimated amount, the Department considers the delivery to have occurred on the date the school recorded the credit to the student's account at the school.
[§668.164(a)(2) and (f)(3); §682.604(c)(5)]

## 8.7.E Late Delivery

A school may deliver Stafford or PLUS loan funds to a student or parent borrower after the end of the loan period or the date on which the student ceased to be enrolled at least half time, provided that:

- The school certified the loan application before the earlier of the end of the loan period or the date on which the student ceased to be enrolled at least half time.
- Except in the case of a PLUS loan, the Department processed a Student Aid Report (SAR) or an Institutional Student Information Record (ISIR) with an official expected family contribution (EFC) before the date the student became ineligible.
- In the case of a first-year, first-time borrower whose loan is subject to delayed delivery (see subsection 8.7.D), the student completed the first 30 days of his or her program of study.
- In the case of a second or subsequent disbursement, the student graduated or successfully completed the period of enrollment for which the loan was intended. In this circumstance, the school must offer the borrower the amount of Stafford or PLUS funds the student (or parent) was eligible to receive while the student was enrolled at the school. The school may credit the student's account to pay for current and allowable charges as described in section 8.7, but must pay or offer any remaining amount to the student or, in the case of a PLUS loan, to the parent.
- The loan funds will only be used to pay educational costs that the school determines the student incurred for the period in which the student was enrolled and eligible.
- The school delivers the funds no later than 120 days after the school determines the student withdrew, or, if the student did not withdraw, 120 days after the earlier of the end of the loan period or the date on which the student ceased to be enrolled at least half time.

On an exception basis, and with the approval of the Department, the school may make a late delivery of loan funds after the applicable 120-day period, if the reason the late delivery was not made within the 120-day period was not the fault of the student. [§668.164(g)(4)]

#### Disbursements Exceed ~~Educational Costs~~ Loan Eligibility

If the total amount of the late disbursement and all prior disbursements exceeds the student's ~~educational costs~~ loan eligibility for the period in which the student was enrolled and eligible, as determined by the financial aid administrator (FAA), the school must return the balance of the borrower's loan proceeds to the lender with a notice certifying the following:

- The beginning and ending dates of the loan period or payment period during which the ~~borrower~~ student was enrolled ~~at the school~~ and eligible ~~as an eligible student~~.
- The amount of loan funds the student or parent borrower~~'s corrected financial need~~ is eligible to receive ~~for the loan~~ for that loan period or payment period. [~~§668.164(g);~~ §682.604(e)]

For information on late disbursement requirements for lenders, see subsection 7.7.G. For information on preventing overawards, see subsection 6.15.A.[1]

## 8.7.F Delivery to Borrowers in Special Circumstances

A school may be restricted from delivering funds to a student under certain circumstances or until such circumstances are resolved. This subsection details the actions a school must take in each of those situations.

#### Leaves of Absence

A school may neither credit a student's account nor deliver loan proceeds to the student or parent borrower while the student is on an approved leave of absence. If the student returns from an approved leave of absence on at least a half-time basis within 10 business days of the school's receipt of loan proceeds by EFT or master check, or within 30 days of the school's receipt of loan proceeds by individual check, the school may credit a student's account or deliver loan proceeds to the borrower. If the school returns loan proceeds received while the student is on an approved leave of absence, the school may request that the lender reissue those loan proceeds to coincide with the student's scheduled return from the approved leave of absence. For more information on the delivery of loan proceeds to a student on an approved leave of absence, see section 4.5. [§668.167(b); §682.604(c)(4)]

#### Bankruptcy

If the school is notified by the lender of a bankruptcy action and is instructed to return any Title IV loan funds that have not been released to the borrower, the school must immediately return any undelivered funds to the lender. In addition, if the school receives notification that a Stafford or PLUS borrower has filed a bankruptcy action after the school certified the loan but before the funds have been delivered to the borrower, the school should return any undelivered funds to the lender. The school must include an explanation that the funds are being returned because the borrower has filed for bankruptcy and must attach a copy of any documentation it possesses regarding the bankruptcy. The school is *not* required to ask borrowers, as part of the loan certification or delivery process, whether they have filed for bankruptcy.

#### Temporary Change in Enrollment Status

If, before the delivery of the proceeds of a disbursement to the student, the student temporarily ceases to be enrolled at least half time, the school may deliver the proceeds of that disbursement and any subsequent disbursement to the student if the school determines and documents in the student's file all of the following:

- That the student has resumed enrollment on at least a half-time basis.
- The student's revised cost of attendance (COA).
- That the student continues to qualify for the entire amount of the loan, notwithstanding any reduction in the student's COA caused by the student's temporary cessation of enrollment at least half time. [§682.604(b)(2)(iv)]

#### Unverified Social Security Number

If the Social Security number (SSN) has not been verified, and a FFELP loan has been guaranteed for the student, the school must instruct the lender and guarantor to cease further disbursements of the loan until the Department or the school determines that the student's SSN is correct. If the student fails to verify the SSN within the delivery time frames in subsection 8.7.A, the school must return to the

1. Policy 722 (Batch 108), approved November 20, 2003

lender the affected FFELP loan disbursements for the student.
[§668.36][1]

## 8.7.G
## Delivery to Transfer Students

A Stafford or PLUS loan may be used only to cover the cost of attendance (COA) at the school that certifies the borrower's eligibility for the loan. If a student transfers between schools, ~~at any time, neither the student nor the parent borrower is eligible to receive the loan proceeds that were guaranteed for the student's attendance at the previous school. B~~both the student's COA and estimated financial assistance (EFA) may change substantially ~~if the student transfers schools~~ at the new school, and the change could affect the borrower's eligibility for the loan. ~~The former school and the lender must treat the transfer as a withdrawal for the purposes of disbursing and delivering proceeds.~~ Under these circumstances, unless the borrower is eligible for a late disbursement or a post-withdrawal disbursement, neither the student nor the parent borrower is eligible to receive the undisbursed loan funds that were guaranteed for the student's attendance at the previous school. The student or parent borrower seeking additional ~~education~~ Stafford or PLUS loan funds must reapply at the new school. For information on post-withdrawal disbursements, see subsection 4.7.A. For information on late disbursements, see subsection 7.7.G.[2]

The school may not deliver Stafford or PLUS loan proceeds to a student or parent of a student who previously attended another eligible school until the school the student is attending determines, from information obtained through the National Student Loan Data System (NSLDS) or its successor system, all of the following:

- The student is not in default on any Title IV program loan.
- The student does not owe an overpayment on any Title IV program grant or Federal Perkins loan.
- For the award year for which a Federal Pell Grant is requested, the student's scheduled Federal Pell Grant disbursement and the amount of any Federal Pell Grant funds already disbursed to the student.
- The outstanding principal balance of loans made to the student under each of the Title IV loan programs.
- The amount of, and period of enrollment for, loans made to the student under each of the Title IV loan programs for the academic year for which Title IV aid is requested.

For a student who transfers from one school to another during the same award year (i.e., a current-year transfer student), the school to which the student transfers must request or access from the NSLDS updated information about that student in order to determine the student's eligibility for Stafford or PLUS loan proceeds. The school must wait for 7 days following its request to the NSLDS. However, if, before the end of the 7-day period, the school receives the information from the NSLDS in response to its request or obtains that information itself by directly accessing the NSLDS, the school may deliver the loan proceeds as long as the student is otherwise eligible. A school is not required to respond to a request for a paper financial aid transcript.

## 8.7.H
## Delivery Methods

A school may deliver loan proceeds using any of the following methods:

- Crediting the proceeds to the student's account at the school.
- Issuing a check or other instrument to the borrower that requires endorsement or certification. The school may issue a check by releasing or mailing it to the borrower or by notifying the borrower that it is available for immediate pickup.
- Releasing or mailing to the borrower a check that has been provided by a lender.
- Initiating an electronic funds transfer (EFT) to a bank account designated by the student or parent borrower, in which case the school must obtain authorization from the borrower, as applicable.
- Dispensing cash for which a school obtains a signed receipt from the student or parent borrower. [§668.164(a) and (c)]

To help prevent fraud, the school is encouraged to verify the student's identity by requiring at least one form of identification with a photograph before delivering the loan proceeds directly to the student.

1. Policy 724 (Batch 108), approved November 20, 2003
2. Policy 721 (Batch 108), approved November 20, 2003

A school may credit a student's account with FFELP loan proceeds to satisfy the following current-year charges without obtaining the student or parent borrower's authorization:

- Tuition and fees.
- Room and/or board, if the student contracts with the school for room and/or board.

After obtaining the student's authorization, or the parent's authorization in the case of a PLUS loan, a school may credit a student's account with FFELP loan proceeds to pay the following charges:

- Additional current-year charges incurred for educationally related activities.
- Minor prior-year charges of less than $100.
- Prior-year charges of $100 or more, provided the school has determined that the payment of the prior-year charges does not, or will not, prevent the student from paying his or her current-year education costs. [§668.164(d)]

For more information on required authorizations, see section 8.3.

## 8.8 Managing Credit Balances

A credit balance is created when a school delivers Stafford or PLUS loan proceeds to a student's school account and the total amount of funds credited to the account exceeds the amount of the student's institutional charges.

### 8.8.A Delivering Credit Balances

Any time the delivery of FFELP funds creates a credit balance, the school must pay the final credit balance directly to the student or parent borrower as soon as possible, but no later than 14 days after one of the following:

- The first day of the payment period if the credit balance occurs on or before the first day of the payment period.
- The date the credit balance occurs if the credit balance occurs after the first day of the payment period.
- The date the school receives notice from the student or parent borrower to cancel his or her authorization to have the school manage the credit balance. [§668.164(e); §668.165(b)]

Figure 8-5 illustrates the time frames related to the delivery of credit balances.

### 8.8.B Holding Credit Balances

Unless prohibited by the Department under reimbursement payment method provisions, a school may hold a borrower's Stafford or PLUS loan proceeds as a fiduciary for the benefit of the student, the guarantor, and the Department, if those proceeds represent a credit balance that would otherwise be paid directly to the student or parent borrower. The borrower must authorize the school to retain the credit balance to assist the student in managing the funds (see section 8.3). If the school receives written authorization to hold a credit balance for the student, the school must perform the following activities:

- Identify the student and the amount of funds the school holds for that student in a subsidiary ledger account designated for that purpose.
- Maintain at all times cash in its bank account in an amount equal at least to the amount of the funds the school holds for the student.
- Advise the borrower that he or she may cancel or modify this authorization at any time (see section 8.3).
- Pay any remaining loan balance to the student or parent borrower no later than the end of the loan period. [§668.165(b); §682.604(d)(1)(ii)(B)]

The school may retain any interest earned on the student's funds.

## 8.9
## Return of Loan Funds

Loan proceeds must be returned to the lender if the school is unable to deliver them or if the school is unable to document that the student attended classes during the payment period for which the loan is intended.

If the student fails to register, enroll, maintain at least half-time enrollment, or maintain satisfactory academic progress (SAP), or if the student is on an unapproved leave of absence or fails to return from an approved leave of absence, the school must meet the deadlines required for returning the loan proceeds to the lender.

If a school delivers the loan proceeds on behalf of a student who fails to complete the period of enrollment for which the loan is intended, the school must determine if funds must be returned to the lender. See section 4.7 for more information on requirements regarding the return of Title IV aid.

If either the school or the borrower returns the proceeds of a loan disbursement, the school may request that the lender make subsequent disbursements of the loan, unless the school or the lender has information that the student is no longer enrolled.
[§682.207(b)(1)(vii)]

Figure 8-6 provides situations in which loan funds may be delivered or must be returned, and applicable time frames.

### 8.9.A
### Return of Undelivered Loan Funds

If the school is unable to deliver loan proceeds to the borrower within the time frames specified in subsection 8.7.A, the school must return the loan proceeds to the lender promptly, but no later than 10 business days after the last day of the initial or conditional period, as applicable. This period is referred to as the return period. For more information on the initial and conditional periods for delivery of proceeds, see subsection 8.7.A.

If a student does not register for the payment period for which a loan is made, or a registered student withdraws, is expelled prior to the first day of classes, or fails to maintain at least half-time enrollment, the school must return the undelivered loan proceeds to the lender promptly, but no later than:

- 13 business days after the school's receipt of proceeds disbursed by EFT or master check.
- 30 days (initial period) plus 10 business days (return period) after the school's receipt of proceeds disbursed by individual check.

For purposes of returning undelivered proceeds to the lender, the term "promptly" means that a school may not delay initiating and completing its normal return process. "Returning the proceeds promptly, but no later than 10 business days" means that the school must either mail a check or initiate an electronic funds transfer to the lender by the close of business of the last day of the return period. [Department of Education Policy Bulletin dated June 2, 1997]

### 8.9.B
### Return of Ineligible Borrower Loan Funds

If, for any other reason, the school is unable to document that the student attended classes during the payment period for which the loan is intended, the school must notify the lender of the student's withdrawal. Within 30 days of making this determination, the school must return any loan proceeds credited directly to the student's account and any proceeds delivered to the student or parent borrower and subsequently paid to the school.

If loan funds have been delivered to or on behalf of a student who did not attend classes during the payment period for which the loan is intended, the borrower may be considered ineligible for those funds. The determination of whether the ineligibility is due to borrower, school, or lender error is contingent upon when the funds were delivered.

If a school delivers loan proceeds to or on behalf of a student who did not attend classes during any payment period, the borrower is ineligible for those funds due to school error. The school must promptly repay those funds to the lender. The amount paid to the lender must include the amount disbursed that the borrower was ineligible to receive plus any outstanding accrued interest due to the lender, but must not include any payment or prepayment made by the borrower prior to the date the school repays the ineligible funds. The school also must repay to the

Department any interest and special allowance benefits paid to the lender from the date of disbursement through the date the school repays the funds. If the school refunds subsidized interest and special allowance to the lender, the lender must make an appropriate adjustment on its next quarterly ED Form 799.

If the school is required to repay the entire loan amount, the school may request that the lender assign the loan to the school using either the original or a true and exact copy of the promissory note at the time the school returns the loan funds to the lender. A lender must comply with the loan record retention requirements in subsection 3.4.A for any loan assigned to a school and for any remaining loans held by the lender that were originated under the same Master Promissory Note (MPN).

If a school delivers loan funds to or on behalf of an otherwise eligible student during the 10-day period prior to the beginning of the period of enrollment, and the student does not attend any classes during the period of enrollment, ceases to be enrolled at least half-time, or is expelled prior to the start of the payment period, the borrower is ineligible for the funds due to borrower error. In this case, the school must notify the lender of the borrower's receipt of ineligible funds (see subsection 11.4.F for lender servicing requirements for ineligible loans). The school will not be assessed any liability for delivering loan funds in this instance unless the school knew or should have known that the borrower was ineligible to receive the funds at the time they were delivered.

If a school delivers loan funds to or on behalf of an otherwise eligible student during the 10-day period prior to the first day of a second or subsequent payment period, and the student does not attend any classes in the second or subsequent payment period, ceases to be enrolled at least half time, or is expelled prior to the start of the payment period, the school must determine whether the borrower is ineligible for the funds (see section 5.14). If the school determines that the borrower was ineligible for the loan funds, the school must notify the lender of the borrower's receipt of funds for which he or she was ineligible (see subsection 11.4.F for lender servicing requirements for such loans). If the school determines that the borrower was eligible for the funds, the school must adhere to the applicable return of Title IV funds guidelines (see section 4.7). The school will not be assessed any liability for delivering loan funds in this instance unless the school knew or should have known that the borrower was ineligible to receive the funds at the time they were delivered.
[§668.167(b); §682.604(d)(3) and (4)]

## 8.9.C
## Return of Unearned Loan Funds

If the student registers but officially or unofficially withdraws, takes an unapproved leave of absence, does not return from an approved leave of absence, or is expelled, the school must return to the lender that portion of unearned Title IV funds for which the school is responsible and that is allocable to a FFELP loan. The funds must be returned no later than 30 days from the date the school determines that the student is no longer enrolled. In the case of an approved leave of absence, the funds must be returned within 30 days from the date the student notifies the school that he or she will not return or the ending date of the leave of absence, whichever is earlier. If the student drops to less than half-time status, but is still enrolled, the school does not perform a return of Title IV funds calculation. For more information on determining the date of withdrawal, see section 4.6.

If the student does not return at the end of an approved leave of absence, the school must pay that portion of a refund allocable to a FFELP loan to the lender within 30 days of the date the leave of absence ended or within 30 days of the date the student notified the school that he or she would not be returning, whichever is earlier.
[§668.22(j); §682.607(c)]

## School Requirements before Delivering a FFELP Loan — Figure 8-3

| Requirements | Comments |
|---|---|
| Confirm student is enrolled at least half time. | A temporary cessation of half-time enrollment is permitted if the school performs the following activities:<br>• Recalculates the student's cost of attendance (COA) (and the borrower still qualifies for full amount of the loan).<br>• Documents the student's enrollment status, revised COA, and continued eligibility. |
| Confirm student has returned from an approved leave of absence. | See section 4.5 for more information on leave of absence. |
| Confirm student is maintaining satisfactory academic progress (SAP). | Assessment of SAP is not required at the time the loan is received or delivered, unless required by the school's policy. |
| Verify student data, if required. | See subsection 6.6.A for more information on verification. |
| Obtain all required financial aid information. | See subsection 5.13.A. for more information on FATs. |
| Perform entrance counseling, if required. | Entrance counseling is required only for first-time student borrowers.<br>• For loans first disbursed before 07/01/95, "first-time" means first-time attendance at the school regardless of whether student borrowed a Direct loan or a FFELP loan at another school.<br>• For loans first disbursed on or after 07/01/95, a "first-time" borrower is a student who has not previously borrowed a Direct loan or a FFELP loan. |
| Confirm that no overaward exists. | The sum of an installment and the student's other resources may not exceed the student's need.<br>• All or a portion of any unsubsidized Stafford or PLUS loan (made under the FFELP or FDLP) may be used to replace EFC.<br>• The determination of whether an overaward exists excludes a $300 FWS tolerance for students with FWS awards.<br>• To eliminate the amount in excess of need, the school must return excess amount and/or adjust the amount of a subsequent disbursement. |
| Adhere to delayed delivery requirement, if applicable. | The delayed delivery requirement applies only to the first disbursement of a Stafford loan made to a first-time borrower in the first year of an undergraduate program.<br>• The disbursement may not be delivered until the student completes the first 30 days of his or her program of study.<br>• Not applicable if student borrowed a FFELP or FDLP loan at another school.<br>• The school may not request an EFT or master check disbursement earlier than the 28th day of the student's first payment period.<br>• The school may not request an individual check disbursement earlier than the 1st day of the student's first payment period. |

Adapted from: *Trainee Guide: 1995-96 Delivery System Training Workshop*, U.S. Department of Education, December 22, 1994, page 5-36.

## Earliest Disbursement and Delivery Dates — Figure 8-4

| Disbursement Method | Not Subject to Delayed Delivery[1] | | Subject to Delayed Delivery[2] | |
|---|---|---|---|---|
| | Earliest Disbursement Date | Earliest Delivery Date | Earliest Disbursement Date | Earliest Delivery Date |
| Individual Check | 30 days before first day of payment period | 10 days before first day of payment period | 1st day of first payment period | 31st day of first payment period |
| EFT or Master Check | 13 days before first day of payment period | | 28th day of first payment period | |
| | §682.207(b)(1)(iii)<br>§668.167(a)<br>§682.603(h) | §668.164(a) and (f) | §668.167(a)<br>§682.603(h) | §668.164(a) and (f)<br>§682.604(c)(5) |

1 Applies to disbursement and delivery of all loan proceeds at credit-hour schools with programs offered in semester, trimester, or quarter academic terms. Clock- or credit-hour schools with programs not offered in semester, trimester, or quarter academic terms should see subsection 8.7.C for applicable disbursement and delivery requirements.

2 Applies to the first disbursement of a Stafford loan made to a student who is enrolled in the first year of an undergraduate study program and who has not previously received a Stafford or SLS loan. Eligible foreign schools are not required to delay the delivery of loan funds to these students (see subsection 8.7.D).

## Delivery of Credit Balances — Figure 8-5

| Disbursement Method | Latest Delivery Date |
|---|---|
| Individual Check, EFT, or Master Check | No later than 14 days after:<br>• The first day of the payment period if the credit balance occurs on or before the first day of the payment period.<br>• The date the credit balance occurs if the credit balance occurs after the first day of the payment period.<br>• The date the school receives the student or parent borrower's notice to cancel his or her authorization to have the school manage the credit balance. [§668.164(e); §668.165(b)(4)(iii); §682.604(c)(3)(ii)] |

## Delivery or Return of Loan Funds — Figure 8-6

For more detailed information about the delivery or return of loan proceeds, see subsections 8.7 and 8.9

| Situation | Condition Under Which Proceeds May Be Delivered to Student | Latest Delivery Date[1] | Time Frame for Returning Undelivered Proceeds to Lender[2, 3] |
|---|---|---|---|
| Enrolled student fails to respond to request for endorsement of loan check or fails to authorize EFT or master check | After endorsement or authorization, subject to FFELP loan delivery requirements | Check: Within 30 days after receipt of proceeds<br>EFT/Master Check: Within 3 business days after receipt of proceeds | Promptly, but no later than 10 business days after the latest delivery date |
| Student is on an approved leave of absence | Student returns from the leave of absence | Check: Within 30 days after receipt of proceeds<br>EFT/Master Check: Within 3 business days after receipt of proceeds | Promptly, but no later than 10 business days after the latest delivery date |
| Student fails to undergo initial loan counseling | After counseling, subject to FFELP loan delivery requirements | Check: Within 30 days after receipt of proceeds<br>EFT/Master Check: Within 3 business days after receipt of proceeds | Promptly, but no later than 10 business days after the latest delivery date |
| Student selected for verification | When verification is completed, subject to FFELP loan delivery requirements | Within 45 days of receipt of proceeds | Promptly, but no later than 10 business days after the latest delivery date if verification is not completed |
| Missing financial aid information for student (see subsection 5.13.A.) | When all required financial aid information is received, subject to FFELP loan delivery requirements (see section 8.7.) | Check: Within 30 days after receipt of proceeds<br>EFT/Master Check: Within 3 business days after receipt of proceeds | Promptly, but no later than 10 business days after the latest delivery date if all required financial aid information is not received |
| Student fails to register | N/A | *Only to determine time frame for returning proceeds*<br><br>Check: Within 30 days after receipt of proceeds<br>EFT/Master Check: Within 3 business days after receipt of proceeds | Promptly, but no later than 10 business days after the latest delivery date |
| Registered student withdraws or is expelled before first day of classes, or fails to attend | N/A | *Only to determine time frame for returning proceeds*<br><br>Check: Within 30 days after receipt of proceeds<br>EFT/Master Check: Within 3 business days after receipt of proceeds | Promptly, but no later than 10 business days after the latest delivery date |
| Student fails to maintain at least half-time enrollment or loses loan eligibility | N/A | *Only to determine time frame for returning proceeds*<br><br>Check: Within 30 days after receipt of proceeds<br>EFT/Master Check: Within 3 business days after receipt of proceeds | Promptly, but no later than 10 business days after the latest delivery date |
| Student is overawarded | Student is eligible for portion of proceeds | Check: Within 30 days after receipt of proceeds<br>EFT/Master Check: Within 3 business days after receipt of proceeds | Promptly, but no later than 10 business days after the latest delivery date if entire loan disbursement<br><br>Within 60 days of determining an overaward exists if portion of proceeds |

[§668.19; §668.22(j); §668.58(c); §668.60(b)(3); §668.167(b); §682.604(c)(2); §682.604(h); §682.607(c); Department of Education Policy Bulletin dated June 2, 1997]

1 Schools may delay delivery of loan proceeds for a conditional period of 10 business days after the last day of the initial period if, within this conditional period, the school expects the student to complete the required number of clock or credit hours in a preceding payment period or the school expects the student to meet all FFELP eligibility requirements. The school is encouraged to document the reason for holding loan proceeds for delivery within this conditional period. This provision does not apply to students for whom verification has not been completed.

2 In the case of an overaward, schools *must* indicate in writing the reason for returning loan proceeds and, if applicable, provide the student's withdrawal date. In all other cases, schools are encouraged to provide the reason for returning loan proceeds and, if applicable, provide the student's withdrawal date. If, during the return period, the school determines that the student has become eligible to receive the loan proceeds, the school may deliver the proceeds rather than return them to the lender, provided the delivery is made on or before the last day of the return period.

3 For purposes of returning undelivered proceeds to the lender, the term "promptly" means that a school may not delay initiating and completing its normal return process. "Returning the proceeds promptly, but no later than 10 business days" means that the school must either mail a check or initiate an electronic funds transfer to the lender by the close of business of the last day of the return period.

## 8.10
## Delivery When Department Approval Is Required

A school must receive approval from the Department before delivering Stafford or PLUS funds in either of the following cases:

- The Department places the school on either the reimbursement or the cash monitoring payment method.

- The school participates solely in the FFELP and the Department has determined that there is a need to monitor the school's participation in that program. [§668.19; §668.58(a) and (c); §668.167(b), (d), (e), and (f); §682.604(a)(3); DPL GEN-00-12; Department of Education Policy Bulletin dated June 2, 1997]

## 8.11
## Delivering Loan Funds in Cases of Lost School Eligibility

Generally, a school that has lost its eligibility to participate in Title IV programs may not certify loan eligibility or deliver loan funds. There are exceptions to this rule in limited circumstances, as noted in subsection 8.11.A.

## 8.11.A
## Exceptions to Delivery Restrictions at Ineligible Schools

A school's loss of eligibility has an impact on its ability to deliver Title IV funds to students. Following are some instances in which a school may be prohibited from delivering Title IV funds to students:

1. If a school's Program Participation Agreement (PPA) expires, the school may not deliver Title IV funds until it receives notice from the Department that it is eligible to participate, unless the school submitted a materially complete renewal application at least 90 days prior to the expiration of its current PPA and is awaiting a final determination.

2. If a private nonprofit, private for-profit, or public school undergoes a change of ownership resulting in a change of control, or a school changes status as a nonprofit, for-profit, or public school, the school's PPA with the Department expires immediately and the school may not deliver Title IV funds unless it has submitted a materially complete application to reestablish eligibility or continue certification to participate in Title IV programs. The application must be submitted no later than 10 business days after the change or, in the case of a school owned by a publicly-traded corporation, no later than 10 business days after the school knew or should have known that the change occurred based on Securities Exchange Commission (SEC) filings. In addition, to be eligible to deliver Title IV funds, the school must receive a provisional PPA, submit any additional required information in a timely manner, and be awaiting a final determination from the Department. (See subsection 4.1.C for additional requirements.)

Except for the delivery of second or subsequent disbursements as described in subsection 8.11.B, if a school does not submit a timely application for renewal of certification or approval of ownership change and continues to deliver Title IV funds, the school is liable for those Title IV funds delivered after the expiration of the school's eligibility.
[§600.20(f); §600.40; §668.13(a) and (b); §668.26]

## 8.11.B
## Delivery of Second or Subsequent Disbursements after a School Loses Eligibility

A student who is enrolled at a school, and who has received the first disbursement of a FFELP loan before the school loses its eligibility to participate in the Department's or guarantor's programs, may receive the second or subsequent disbursements of that loan, if the borrower is otherwise eligible.

A school may credit to a student's account or deliver to the student the proceeds of a second or subsequent disbursement of a Stafford loan to satisfy any unpaid commitment made to the student under the Federal Stafford Loan Program only if all of the following conditions are met:

- The school's participation in the Federal Stafford Loan Program ends during the student's period of enrollment.

- The Stafford loan commitment was made before the end of the school's participation.

- The commitment was made for the student's attendance during the period of enrollment in which the school's participation ended.

- The proceeds of the first disbursement of the loan were delivered to the student or credited to the student's account before the end of the school's participation.

- The school continues to provide, from the date that its participation ends until the scheduled completion date of that period of enrollment, educational programs to otherwise eligible students enrolled in the formerly eligible programs of the school.

The preceding guidelines do not apply to every situation in which a school ceases to be eligible to participate in Title IV programs. The school should immediately contact the Department or a guarantor for additional guidance on delivering proceeds. Improper delivery of student loan proceeds may result in institutional liability.

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Chapter 9 describes servicing requirements for FFELP loans. The information presented in this chapter applies to Stafford, PLUS, and SLS loans. Where noted, provisions also apply to Consolidation loans. Other requirements specific to Consolidation loans are covered in chapter 14.

Servicing requirements begin when the loan is disbursed and encompass all activities during the in-school, grace, and repayment periods. Servicing activities include:

- Verifying the student's in-school status.
- Converting the loan to repayment.
- Establishing repayment terms.
- Applying payments, deferments, and forbearances (for more information on deferment and forbearance, see chapter 10).
- Reporting transactions to the guarantor.
- Reporting information about the loan to a national credit bureau (see subsection 3.5.C).
- Performing collection due diligence (see section 11.2).
- Responding to borrower or endorser inquiries within 30 days of receiving the inquiry. [§682.208(c)(1)]

The procedures the lender develops and the resources it devotes to servicing its loans and complying with the due diligence requirements specified in chapter 11 will be the largest single commitment the lender makes to the proper administration of FFELP loans. Many lenders contract with third-party servicers to perform servicing functions required for FFELP loans. The use of a reliable servicer can be an effective way for the lender to standardize procedures, facilitate growth, minimize costs, and ensure its loans are administered in full compliance with federal laws and regulations, and guarantor policies and procedures. For more information on lender and servicer requirements, see chapter 3.

## 9.1 Verifying Enrollment

During the in-school, grace, and in-school deferment periods, guarantors and the Department, via the National Student Loan Data System (NSLDS), monitor the enrollment status of the borrower, or the student on whose behalf a parent has borrowed a PLUS loan, to determine whether the student maintains continuous enrollment on at least a half-time basis. As a result, schools are required to supply enrollment information to the NSLDS or to guarantors, lenders, holders, or their servicers, as applicable.

To monitor a student's enrollment, the guarantor or the NSLDS obtains enrollment information from the school. This enrollment verification is facilitated through the Enrollment Reporting process, as outlined in section 4.8. Schools that have received a letter from the Department confirming successful submission of an enrollment Roster File to the NSLDS are exempt from the requirement to provide enrollment Roster Files directly to guarantors. The NSLDS forwards to guarantors, and in some cases lenders, the information received from the Enrollment Reporting process and each guarantor forwards it to lenders, holders, and/or servicers, as appropriate.

The guarantor notifies the lender of changes in the student's enrollment status as reported to the guarantor by any of the following:

- The student's school through the Enrollment Reporting process or other approved mechanisms such as the National Student Clearinghouse.
- Another lender holding a loan for the same borrower.
- A new loan application or certification record for a repeat borrower.
- The borrower (these status changes must be verified by the school as outlined in subsection 9.1.A).

  Some guarantors have additional requirements regarding enrollment status updates from borrowers. These requirements are noted in appendix C.

The lender must document, in the borrower's file or the servicing history of the loan, both the receipt of any enrollment change information obtained from the guarantor and the action the lender took in response to the information.
[§682.401(b)(20)]

# 9.1.A
# Lender Processing of Enrollment Changes

The lender must review and update its records promptly with all enrollment change information received regarding a student. If the lender receives any information that conflicts with its records, the lender is required to resolve these discrepancies. Schools are responsible for assisting lenders in resolving conflicts in the information related to the borrower's enrollment. Enrollment information must be recorded in the borrower's file or in the servicing history of the loan and must be available at all times.

### Deferment Based on Enrollment

By signing the Master Promissory Note (MPN) for a Stafford loan, the borrower authorizes the lender to defer all of his or her FFELP loans upon receiving information indicating that the borrower is enrolled at least half time. The application and promissory note for a PLUS loan contains the borrower's request for a deferment and the school's certification of the student's enrollment status. If the borrower checks "yes" for the deferment question, the lender *must* use this information to grant a deferment for all of the borrower's outstanding FFELP loans, as applicable, unless the lender has conflicting information. For more information on borrower eligibility requirements for an in-school deferment, see subsection 10.5.A. For more information on the documentation required for granting deferments, see subsection 10.1.B.

### Enrollment Information and the AGD

If the lender receives certification directly from the school that the student has maintained the same enrollment status and is expected to be enrolled through the date most recently reported to the lender, a student status change has not occurred. If the lender receives enrollment information as part of an in-school deferment that is certified for an academic period that ends earlier than the borrower's anticipated graduation date (AGD) of record and no conflicting AGD information is included on the enrollment certification, the lender should not adjust the borrower's AGD. In either case, although no change has occurred on the account, the lender must document that it received information from the school. However, the lender need not report to the guarantor any information regarding the loan's status, except to fulfill the lender manifest/National Student Loan Data System (NSLDS) reporting requirements.

If the lender receives enrollment information that is certified for an academic period that ends after the borrower's AGD of record, regardless of whether the information comes in the form of an in-school deferment request, other written means, or as provided by the guarantor as part of its school Enrollment Reporting process, the lender should adjust the borrower's AGD to agree with the information provided on the enrollment certification. In all cases, the lender must determine whether newly reported enrollment information supersedes the information on the lender's records and, if so, must make appropriate changes to the borrower's file or the servicing history of the loan.

If the school certifies that the student has withdrawn, dropped to less than half-time enrollment, or dropped from full-time to half-time enrollment, a status change may have occurred.

### New Enrollment Information When Borrower Is No Longer Enrolled

If the lender has already provided the borrower with a repayment disclosure and the lender receives new enrollment information with the same month and year as previously reported information but with a different day, the lender may continue to service the loan based on the previous information. However, if no repayment disclosure has been generated, or if the new information is not within the same month and year as prior information, the lender must service the loan based on the new information. [§682.209(a)(3)(iii)]

### Eligibility for In-School Deferment

If a lender receives reliable information that indicates that the borrower may be eligible for an in-school deferment, the lender must determine the borrower's eligibility and, if the borrower is eligible, grant the in-school deferment. For more information on eligibility criteria for in-school deferment, see subsection 10.5.A. For more information on in-school deferment documentation and recording, see subsection 10.5.B.

### Receipt Date of Enrollment Information

The lender's receipt date for enrollment information, as noted in the borrower's file or servicing history, may be used to determine whether a loan was properly converted to repayment.

Unless lender records indicate otherwise (the lender's receipt date may be earlier or later based on documentation retained by the lender), a guarantor will assume the lender's receipt date of enrollment information to be no later than:

- The end of the month in which the enrollment update report was generated—or, if the report was generated in the last 7 days of the month, no later than 5 days after the end of the month (the generation date is provided on the report).
- 5 days after the guarantor generates a tape, if the lender receives enrollment information by magnetic tape.
- The day a guarantor successfully transmits enrollment information to the lender electronically.
- 5 days after the date of the notice sent from the school (or other acceptable source).

#### Confirmation of Enrollment Information

The lender may shorten the in-school period based on the information supplied by the borrower verbally or in writing. If the borrower provides a lender with student status information that would lengthen the in-school period, the lender must verify the information with the school. The school's financial aid office or registrar's office may confirm the information either in a telephone conversation or in writing. If the confirmation is by telephone, the lender must note the following information in the borrower's file or in the servicing history of the loan:

- The date the confirmation was received.
- The name and title of the school official providing the information.
- A summary of the information received (such as enrollment status and the exact dates of attendance).

▲ Some guarantors require written confirmation as a follow-up to a confirmation by telephone. Lenders may contact individual guarantors for more information. See section 1.6 for contact information.

Some guarantors have additional requirements regarding the acceptance of new out-of-school dates. These requirements are noted in appendix C.

If, after contacting the school, the lender determines that the information the borrower provided coincides with the school's records, the lender must adjust the loan according to the new status indicated by the borrower and the school.

#### Record Retention

It is important that a lender maintain a clear, comprehensive record of each student status change—especially changes to the student's last date of at least half-time enrollment. See subsection 3.4.A for more information on record retention.
[§682.208(c)(2); §682.414(a)(4)(ii)(E); §682, Appendix D]

## 9.1.B Lender Reporting of Enrollment Changes

Although federal regulations require the lender to update its records with all enrollment information received on a student, the lender should notify the guarantor only if the student's enrollment status or dates of attendance actually change. The lender is not required to report information to the guarantor when a school simply recertifies that the student remains continuously enrolled.
~~[§682.414(a)(4)(ii)(E)]~~

Based on this guidance, the lender must report immediately to the guarantor in any of the following cases:

- When information is received that the student is no longer eligible for an existing in-school deferment because the student dropped to less than half-time enrollment, or, if applicable, dropped from full-time to half-time enrollment.
- When information is received that the student has an anticipated graduation date (AGD) other than the one previously reported.
- When information is received that the student has graduated, withdrawn, or dropped to less than half-time enrollment on a date other than the date on which the student was projected to leave school.

  Some guarantors have additional requirements regarding the acceptance of new out-of-school dates. These requirements are noted in appendix C.

For information on reporting loan status changes to guarantors, see subsection 3.5.D.[1]

Some guarantors accept enrollment status change information from schools only or do not require reporting of enrollment status changes. Details are noted in appendix C.

1. Policy 703 (Batch 106), approved September 18, 2003

## 9.2
## In-School Period

The in-school period on a loan begins on the date the student begins at least half-time enrollment and ends when the student ceases to be continuously enrolled at least half time.

Generally, a student is considered to be continuously enrolled for any period when there are no breaks in enrollment other than those coinciding with the school's regular academic periods, or when a student is not considered to be enrolled less than half time longer than any applicable grace period. A student is considered to be continuously enrolled in any of the following cases:

- The student attends school through the end of the spring academic period, does not attend during the summer period, but resumes enrollment in the fall (summer bridge extension).
- The student attends a school that has lost its Title IV eligibility after the student enrolled, but he or she maintains continuous enrollment at least half time.
- The student delays his or her enrollment at the beginning of a school term for a period not to exceed 30 days.
- The student temporarily ceases to be enrolled on at least a half-time basis, but subsequently reenrolls at least half time and remains eligible for the full loan amount notwithstanding a reduction in the cost of attendance.
- The student simultaneously attends two or more eligible schools that have a cooperative or consortium agreement, and the student's combined enrollment at these schools equals at least half-time enrollment. The school that recognizes credit for the contracted portion of the program of study must certify the student's entire enrollment. A student in this case is considered to be continuously enrolled only if one of the schools certifies that the student's total enrollment is considered to be at least half time.
  [§600.9; §682.604(b)(2)]

#### Correspondence Study

For a student enrolled in a program of correspondence study, the in-school period ends on the earliest of the following dates:

- The date on which the student completes the program.
- The date of withdrawal.
- 60 days from the last date established by the school for completing the program.
  [§668.22(l)(3); §682.209(a)(4); §682.605]

## 9.3
## Grace Period

A Stafford loan borrower is entitled to a grace period during which payments of principal are not required and which is intended to provide the student borrower with time to find employment and prepare to repay the loan. An SLS loan borrower who has a Stafford loan that has not entered repayment is also entitled to a grace period on his or her SLS loan(s) if he or she requests that grace period.

A borrower is allowed only one grace period on a loan or on each group of loans merged into a single repayment schedule. However, if the borrower ceases at least half-time enrollment and then reenrolls at least half time at an eligible school before the grace period expires, the borrower is considered to have been continuously enrolled, and the loan remains in the in-school period. Once the grace period expires and the repayment period begins, a new grace period is not allowed.

A borrower may waive all or a portion of the grace period by submitting a written request for a waiver. Once the grace period has been waived, it may not be reinstated. This limitation applies even if the borrower reenrolls at least half time before the amount of time originally allotted for the grace period has elapsed.
[§682.209(a)(5)]

> EXAMPLE
> A borrower has an original last date of attendance of June 19, 2002, and a grace period end date of December 19, 2002. The borrower provides a letter waiving the grace period effective July 31, 2002, and re-enrolls full time in September 2002. The lender may *not* reinstate the grace period but must grant an in-school deferment if it receives enrollment information that supports the borrower's eligibility for the deferment (see subsection 10.5.A).

## 9.3.A
## Length of the Grace Period

A grace period begins on the day after the Stafford borrower ceases to be enrolled at least half time at an eligible school, as determined by the out-of-school date provided by the school (the student's last date of at least half-time attendance or the student's anticipated graduation date if an earlier withdrawal date is not reported). The grace period ends the day before the repayment period begins. If the Stafford loan borrower also has an SLS loan, he or she may request a grace period on that SLS loan. The SLS loan's grace period is equivalent to the grace period for the Stafford loan (see subsection 9.4.C).

A grace period ends 6 to 12 months after it begins, depending on the interest rate at which the loan is disbursed. The number of months allowed for the grace period is disclosed to the borrower at or before the disbursement of the loan.
[§682.200; §682.209]

A 6-month grace period is authorized for all Stafford loans disbursed at a variable interest rate or a fixed rate of 8%, 9%, or 8%/10%. A grace period of 9, 10, 11, or 12 months applies—as indicated on the borrower's promissory note—for Stafford loans disbursed at a fixed interest rate of 7%. If a loan originally disbursed at a fixed rate of 7% is converted to a variable rate, the loan retains the applicable grace period of 9, 10, 11, or 12 months.
[§682.209(a); DCL 94-L-171]

## 9.3.B
## Payment of Interest during the Grace Period

For subsidized Stafford loans, interest accruing during the grace period is paid by the Department. For unsubsidized Stafford loans, the borrower is responsible for paying all interest that accrues during the life of the loan.
[§682.300(a)]

## 9.3.C
## Military Extension of the Grace Period

A Stafford or SLS borrower who has a loan in a grace period or a loan in an in-school status that would subsequently enter a grace period, and who is called or ordered to active duty, is entitled to one or more military extensions of the grace period for a period not to exceed 3 years for any single extended period. The maximum 3-year military extension for any single extended period includes the time period necessary for a borrower to resume enrollment at the next available and regularly scheduled period of enrollment. To qualify for this extension, the borrower must be called or ordered to active duty on or after October 1, 1998, from a reserve component of the U.S. Armed Forces for a period in excess of 30 days.

If the Stafford or SLS borrower resumes at least half-time enrollment at the end of a military extension, the borrower is entitled to a new grace period at the end of the in-school period. If the borrower does not resume at least half-time enrollment, the borrower is entitled to a new grace period at the end of the military extension.

Interest that accrues during the military extension is paid by the Department for subsidized Stafford loans. Interest accruing on unsubsidized Stafford loans is the responsibility of the borrower.
[HEA 428(b)(7)]

If the borrower is in repayment, deferment, or forbearance when he or she is called or ordered to active duty, see section 10.7 for information regarding military deferment and section 10.21 for information regarding mandatory administrative forbearance.

## 9.4
## Establishing the Repayment Start Date

The repayment start date is the date the repayment period begins. A lender must establish the repayment start date on a loan according to the requirements in this section.

## 9.4.A
## Stafford Loan Repayment Start Date

The repayment period on a Stafford loan begins on the day following the last day of the grace period. The lender must establish an accurate repayment start date in a timely manner and ensure the loan is converted to a repayment status immediately after the grace period expires.

There are two permissible methods for calculating the date on which a Stafford loan borrower's grace period ends and the repayment period begins:

- *The month-specific method*
  A lender converts the loan to repayment based on the number of months elapsed since the borrower was last enrolled. Repayment began on the first day of the 7th, 10th, 11th, 12th, or 13th month following the month in which the student graduated, withdrew, or ceased at least half-time enrollment.

- *The day-specific method*
  A lender calculates the grace end date as the day that is exactly 6, 9, 10, 11, or 12 months following the date on which the student was last enrolled at least half time. The repayment period begins on the day following the grace end date.

At the time this manual was published, the Department had not yet begun enforcing the day-specific requirement. However, lenders and schools must make a good-faith effort to comply with this requirement. When the Department begins enforcing these requirements, lenders must use the day-specific method for converting loans to repayment. A loan is to be converted to repayment based on the exact date of the borrower's last day of at least half-time enrollment, plus the applicable grace period.
[§682.200; §682.209(a)(3); DCL 96-G-287/96-L-187, Q&A #18]

## 9.4.B PLUS and SLS Loan Repayment Start Date

The repayment period on a PLUS or SLS loan begins on the date the loan is fully disbursed.
[§682.209(a)(2)]

## 9.4.C Aligning Repayment Start Dates for Stafford and SLS Loans

A borrower with one or more Stafford loans that have not entered repayment and one or more SLS loans is eligible to have the repayment period start dates on these loans aligned. A borrower's request for aligned repayment may be made verbally, in writing, or on the promissory note.

If repayment alignment is requested by a borrower, the lender must postpone repayment of the SLS loan(s) until the end of the grace period on the Stafford loan(s) that has not yet entered repayment. If the borrower has multiple Stafford loans that have not yet entered repayment and those loans have grace periods that are different in length, the lender must postpone repayment of the SLS loan(s) until the end of the longest applicable Stafford loan grace period to align repayment. Any interest that accrues on loans for which repayment has been postponed until the end of the grace period on the Stafford loan(s) must be paid by the borrower monthly or quarterly or be capitalized by the lender no more frequently than quarterly. For information on grace periods, see section 9.3.

A lender may apply an administrative forbearance to Stafford loans that have entered repayment in order to align all of the borrower's Stafford and SLS loans. The borrower's request for alignment on the promissory note is acceptable as authorization to apply an administrative forbearance to align repayment; no further documentation is needed from the borrower. For more information on administrative forbearance, see section 10.19.

A lender is required to offer the option of aligning repayment to each eligible borrower. The lender may include this notice on the disclosure, on other correspondence, or as a separate notice to the borrower. When notifying the borrower, the lender must:

- Advise the borrower that repayment has been postponed until the end of the Stafford loan grace period to align due dates and that, if he or she does not want the postponement, he or she must contact the lender.

- Explain the difference in total costs to the borrower.

If the borrower authorizes repayment alignment on the promissory note, the lender must issue a follow-up notice that the lender is providing repayment alignment and that, if the borrower does not want the postponement, he or she must contact the lender. The Stafford loan application and promissory note and the Master Promissory Note provide the borrower with an explanation of the difference in total costs; lenders are not required to provide further notice of this information (see subsection 10.18.H for additional borrower notification requirements).
[§682.102(e)(3); §682.200; §682.209(a)(2)(iii); §682.210(c)(2) and (3); DCL GEN-92-21; DCL 96-G-287/96-L-186, Q&As #17–#20 and #24, and April 1996 supplement to the DCL]

## 9.5 Establishing the First Payment Due Date

A lender must establish the first payment due date on a loan according to the requirements in this section. If the lender fails to establish a first payment due date according to applicable requirements, due diligence violations may occur that may result in the cancellation of the loan's guarantee.
[§682.205(c)(1); §682, Appendix D]

## 9.5.A
## Stafford Loan First Payment Due Date

The first payment due date for a Stafford loan must be no later than:

- 60 days after the beginning of the repayment period.
- 60 days after the last day of a deferment or forbearance period, unless the borrower makes a prepayment during this period that advances the due date (see subsection 9.11.D).
- 60 days after the last day of a post-deferment grace period, unless the borrower makes a prepayment during this period that advances the due date (see subsection 9.11.B).
- 75 days after the date the lender learns that the borrower's loan has entered repayment without the lender's knowledge (late notification that the borrower ceased at least half-time enrollment).

In each case, the preceding time frames may be extended for up to 30 days if an extension is necessary for the lender to comply with the requirement that a repayment disclosure be sent to the borrower no less than 30 days before the first payment is due.
[§682.209(a)(3); §682.205(c)(1); §682, Appendix D]

## 9.5.B
## PLUS and SLS Loan First Payment Due Date

The first payment due date for a PLUS or SLS loan must be no later than:

- 60 days after the date the loan is fully disbursed.
- 60 days after the last day of a deferment or forbearance period, unless the borrower makes a prepayment during this period that advances the due date (see subsection 9.11.D).
- 60 days after the last day of a post-deferment grace period, unless the borrower makes a prepayment during this period that advances the due date (see subsection 9.11.B).
- In the case of a late notification, 75 days after the date the lender learns the student withdrew from school before the loan was fully disbursed—or, in the case of a loan for which the borrower previously qualified for deferment, 75 days after the date the lender is notified that the borrower no longer qualifies for that deferment.

In each case, the preceding time frames may be extended for up to 30 days on a SLS loan if an extension is necessary for the lender to comply with the requirement that a repayment notification be sent to the borrower no less than 30 days before the first payment is due. This extension is not applicable to PLUS loans.
[HEA 433(b); §682.209(a)(2) and (3); DCL 96-G-287/96-L-186 and April 1996 supplement to the DCL]

## 9.5.C
## Aligning First Payment Due Dates for Stafford and SLS Loans

The first payment due date for aligned repayment of Stafford and SLS loans must be no later than:

- 60 days after the beginning of the repayment period on the Stafford loan.
- 60 days after the last day of a deferment or forbearance period.
- In the case of a late notification, 75 days after the date the lender learns the borrower's loan has entered the repayment period without the lender's knowledge (late notification that the borrower ceased at least half-time enrollment).

In each case, the preceding time frames may be extended for up to 30 days if an extension is necessary for the lender to comply with the requirement that a repayment notification be sent to the borrower no less than 30 days before the first payment is due.
[HEA 433(b); §682.209(a)(2) and (3); DCL 96-G-287/96-L-186 and April 1996 supplement to the DCL]

## 9.5.D
## Revised Out-of-School Dates before Conversion to Repayment

A lender may learn after the fact that a student ceased attendance or dropped to less than half-time enrollment. In such cases of late notification, the lender must consistently convert these loans to repayment in a timely manner.
[§682.209; §682.411(b); §682, Appendix D]

### Stafford Loans

An adjustment must be made if a Stafford loan is not yet in repayment at the time a lender receives a new out-of-school date that places the loan into an immediate repayment status. The lender must convert the loan to repayment based on the new information within 60 days after receiving the notice. The lender must establish a first payment due date that is no later than 75 days from the date on which it received the new information. The lender must send the borrower a coupon book, billing notice, or other correspondence establishing the new first payment due date and amount. In some cases, regulations permit the lender up to an additional 30 days in which to establish a payment due date in cases where the extension is necessary for the lender to comply with the requirements that a repayment disclosure be sent to the borrower no less than 30 days before the first payment is due (see section 9.5).

The accrued interest on the borrower's loan from the actual grace period end date to the new first payment due date may be capitalized and disclosed to the borrower. A repayment disclosure must be sent to the borrower reflecting the adjusted due date, payment amounts, and revised principal balance, if applicable.
[§682.209(a)(3); §682, Appendix D]

If the lender has already sent a repayment disclosure to the borrower, the lender may send a notice of the change in repayment terms to the borrower reflecting the adjusted due date, payment amounts, and any revised principal balance.

### PLUS and SLS Loans

If the lender receives late notification that an SLS loan borrower or dependent student for whom a PLUS loan is obtained has ceased enrollment on at least a half-time basis before the lender's projected deferment end date—or the date the loan is fully disbursed, in the case of a multiply disbursed loan—the lender must:

- Correct the deferment end date on the loan to reflect the actual date on which the student was last enrolled at least half time.
- Cancel remaining disbursements, as applicable, and notify the guarantor that those funds will not be disbursed.
- Reschedule the borrower's first payment due date to a date that is no more than 60 days after the new deferment end date or no more than 75 days after the date on which the lender received the late notification, whichever is later.
- Apply an administrative forbearance for the period from the actual (new) deferment end date to the new first payment due date.
- Send a repayment disclosure to the borrower within 60 days after receiving the late notification. If the lender has already sent a repayment disclosure to the borrower, the lender may send a notice of the change in repayment terms to the borrower reflecting the adjusted due date, payment amounts, and revised principal balance, if applicable.

The unpaid interest that accrued on the borrower's loan from the actual deferment end date up to the new first payment due date may be capitalized.

## 9.5.E Revised Out-of-School Dates after Conversion to Repayment

If a Stafford loan is already in repayment when the lender receives a new out-of-school date that results in a change of the date the lender used to convert the loan to repayment, the borrower's loan(s) must be adjusted. For example, the lender may need to reapply payments received, adjust previous interest and special allowance billings, and revise repayment terms. The lender must calculate a new repayment start date and, if necessary, a new first payment due date to coincide with the new out-of-school date.

### Later Out-of-School Date

If the new out-of-school date shows that the borrower withdrew *later* than was originally reported, and the borrower's loan should still be in its grace or in-school period based on the new out-of-school date, the lender must correct the loan's status and later return the loan to repayment following the expiration of the new (actual) grace period.

If the loan is in repayment and is delinquent at the time the updated information is received, the establishment of a new first payment due date may reduce or eliminate the delinquency on the loan. The lender must recalculate the number of days delinquent from the new (actual) first payment due date and perform the appropriate due diligence activities based on the adjusted delinquency status. The lender must adjust interest and special allowance billings, revise the borrower's repayment terms to support the new information, and report the new information to the guarantor.

EXAMPLE
A borrower has a subsidized Stafford loan. The borrower's old graduation date was June 2001 with a 6-month grace period ending in December 2001. The first payment due date was established as February 1, 2002. The borrower made two timely payments for February and March, but the April payment is delinquent. The lender received new information from the school in May indicating that the borrower was still enrolled half time with an anticipated graduation date of June 2002.

The lender should:

- Change the previously reported graduation date to the new date verified by the school and report the new date to the guarantor.
- Change the borrower's loan status to reflect an in-school status and report the change to the guarantor.
- Reapply the payments to principal only and correct special allowance reporting.
- Charge interest accruing between January 1, 2002, and March 31, 2002, to the Department by an adjustment to the lender's ED Form 799 for the next quarter.
- Notify the borrower of the change to the account.

If payments are received and applied to a borrower's subsidized Stafford loan, and the lender later learns that the loan should not have been in repayment, all payments applied before the actual repayment start date must be reapplied to the principal balance. For a loan on which the accruing interest is not subsidized, the lender may apply those payments to satisfy outstanding accrued interest as of the date the payment was received, and then may apply any remaining funds to principal. Payments made before the actual repayment start date should be applied as prepayments and generally should not advance the payment due date (see subsection 9.11.B).

If the new enrollment information provides a revised out-of-school date that falls within the same month, the lender must react to the change only if repayment terms have not yet been disclosed to the borrower. If terms have been disclosed, the lender need not react to the change, except to note receipt of the information in the borrower's file or the servicing history of the loan.

### Earlier Out-of-School Dates

If the new out-of-school date is *earlier* than was previously reported, the lender must:

- Treat the period from the new (actual) repayment start date to the previously reported repayment start date as if the loan were in forbearance.
- Eliminate any delinquency using an administrative forbearance.

This process is called administrative forbearance because the lender provides a forbearance of payments without the borrower's request or approval. The lender may capitalize the interest accrued between the old repayment start date and the new (actual) date (see sections 9.10 and 10.19). If the loan was delinquent before the lender processed the new out-of-school date, the lender may not resolve that preexisting delinquency with the administrative forbearance.

EXAMPLE
A borrower has a subsidized Stafford loan. The borrower's previous graduation date was September 2001 with a 6-month grace period ending in March 2002. The borrower's first payment was scheduled for May 1, 2002; however, the borrower did not remit payments. The lender received information in June 2002 indicating that the borrower withdrew in June 2001. The end of the grace period must be revised to end in December 2001. The lender should:

- Change the previously reported graduation date to the new date verified by the school and report the new date to the guarantor.
- Adjust the borrower's grace period and first payment due date to coincide with the corrected out-of-school date, so that the due date falls no later than February 14, 2002 (the borrower's next payment due date should remain the same as the one on the account before the adjustments began).
- Apply an administrative forbearance for the period from the new grace period end date (December 31) through the previously reported grace end (March 31), capitalizing the interest accruing between those dates.

- Refund to the Department the interest that accrued on the subsidized Stafford loan between December 31 and March 31, which may be accomplished by adjusting the lender's ED Form 799 for the next quarter.

- Provide the borrower with a new repayment disclosure reflecting the actual new first payment due date and capitalized interest. The borrower's next due date does not change. However, depending on the amount capitalized, the payment amount may change.

- If the loan was delinquent before the receipt of the new out-of-school information, the lender should continue collection activities on the loan at the same point of delinquency that existed on the loan before the new information was received.

## 9.6 Establishing Repayment Terms

In establishing a borrower's repayment terms, the lender should consider the borrower's ability to pay. However, in all cases, the lender must establish terms that retire the debt in a reasonable manner and satisfy the repayment requirements specified by federal regulations. The borrower is entitled to prepay or accelerate the repayment of his or her loan without penalty.
[§682.205; §682.209]

## 9.6.A Determining the Borrower's Indebtedness

A lender must accurately determine and disclose the amount of principal a borrower must repay. This amount should reflect any canceled disbursements, Title IV funds returned by the school, prepayments made by or on behalf of the borrower, accrued unpaid interest that has been capitalized (added to the principal balance), and changes to the interest rate of the loan.

The lender also must project the borrower's finance charge (the interest to be paid over the life of the loan). In all cases in which the capitalization of accrued unpaid interest is authorized, the lender may calculate the finance charge based on the new principal balance, which includes the capitalized interest.
[§682.205(c)]

## 9.6.B Length of the Repayment Period

The maximum allowable repayment period is calculated from the date on which the first payment is due. Generally, a borrower is allowed at least 5 but no more than 10 years from the date the first payment is due to repay each Stafford, SLS, and PLUS loan. For a Consolidation loan, the repayment period may not exceed 30 years depending on the initial balance of the loan (see subsection 14.5.B for information on Consolidation loan repayment provisions). In addition, a "new borrower" on or after October 7, 1998, may select an extended repayment schedule that allows for a repayment period of up to 25 years (see subsection 9.8.D).
[§682.200; §682.209(a)]

### Effect of Deferment and Forbearance

Periods of authorized deferment and forbearance are excluded from the maximum repayment period. As a result, granting a deferment or forbearance extends the overall length of time the borrower may have to repay the loan.

> EXAMPLE
> First Payment Due Date: March 1, 2001
> Number of Payments: 120
> Last Payment Date: February 1, 2011
>
> If a borrower obtains an in-school deferment from August 25, 2001, to May 25, 2002, the 120-month repayment period is extended by the length of the deferment (9 months). The new repayment period is 129 months, and the last payment due date is extended 9 months to November 1, 2011.

Depending on the type of repayment option selected by the borrower, the repayment schedule may not retire the full debt within the prescribed maximum repayment period. For information on repayment options, see the following subsection 9.6.C. A lender may provide the borrower with a period of forbearance to permit the loan payments to continue beyond the statutory maximum repayment period. A lender, under certain repayment options, is required to grant forbearance. For more information on forbearance, see section 10.18.
[§682.209(a)(7)(viii)(D)]

Deferments and forbearances do not extend the period of repayment during which the interest on an 8%/10% Stafford loan accrues or is capped at 8%. Deferments and forbearances are included in the 4-year time frame for which the 8% interest rate is applicable on these loans.

> EXAMPLE
> A borrower with a loan that accrues at an 8%/10% interest rate enters repayment on July 1, 1994. The borrower makes payments for 24 months, then defers the loan for 24 months. When repayment resumes, the loan will have aged to the 49th month of repayment, at which time the loan would normally change to the 10% rate. The interest rate will change based on requirements to convert certain fixed-rate loans to a variable rate, but the loan retains an interest rate cap of 10%.

A borrower is not entitled to the minimum 5-year repayment period if paying the required minimum annual payment amount (generally $600 per year) would result in the loan being paid in full in less than 5 years. [§682.209(c)]

#### Less Than 5-Year Repayment Period

A lender may provide repayment terms that will cause a loan to be repaid in less than 5 years if the borrower requests those terms before the beginning of the repayment period. The borrower may, at any time during the remainder of the repayment period, request that the lender extend the repayment period to a minimum of 5 years unless the remaining balance on the loan can be completely repaid in less than 5 years at the minimum annual payment amount. [§682.209(a)(8)(iv)]

## 9.6.C Repayment Options

A borrower has three options for repaying a loan:

- Pay the outstanding balance (unpaid principal and accrued interest) in full.
- Pay any part of the outstanding balance in a lump sum payment and the remaining balance in regular (monthly or quarterly) principal and interest installments.
- Make regular installments on the entire outstanding balance.

The borrower may prepay all or a portion of the loan without penalty at any time.

## 9.6.D Minimum Payment Requirements

Federal regulations outline specific requirements for the minimum annual amount the borrower must pay on a loan. Unlike the maximum repayment period, which is loan-specific, a minimum annual payment amount applies to all of the borrower's loans. Minimum annual payment amounts vary according to when the loan was first disbursed:

- For loans first disbursed on or after October 1, 1981, the minimum annual payment amount for all of a borrower's loans during any year of repayment must be the lesser of $600 or the outstanding balance of the loans including interest.
- For all loans first disbursed before October 1, 1981, the minimum annual payment amount for all of a borrower's loans during any year must be the lesser of $360 or the outstanding balance of the loans including interest.

Because minimum annual payment amounts apply to a borrower instead of to each loan, a lender may prorate a minimum payment across all of a borrower's loans. As a result, the monthly payment on an individual loan may be less than $50 or $30 (the monthly equivalent of the $600 and $360 annual minimums, respectively). The lender may round the borrower's payment(s) to the next highest whole dollar amount that is a multiple of $5 (when the payment amount is not a multiple of $5). [§682.209(a)(9)]

#### Payments Smaller Than Minimum

A lender may permit a borrower to make smaller payments than otherwise required if the reduced scheduled monthly payment amount equals at least the amount of interest due on the loan. This option may be provided only on a short-term basis, and a lender should ensure that the reduced payments do not cause subsequent repayment schedules to require any single payment amount to exceed any other payment amount by more than three times in cases where this is prohibited (see subheading "Three-Times Rule" later in this subsection).

If the borrower and lender agree, the borrower may pay less than the minimum annual amount as long as the loan(s) will be repaid fully within the maximum repayment period. The lender must document the terms and conditions of the revised agreement in the borrower's file or servicing history. If the reduced payment amount will result in the repayment period extending beyond the allowable

maximum, the lender must grant a reduced-payment forbearance and obtain the borrower's signature on the forbearance agreement (see subsection 10.20.A).
[HEA 428(b)(1)(L)(i)]

*Three-Times Rule*

In all cases where a graduated or income-sensitive repayment schedule is established, federal regulations require that no single installment be more than three times greater than any other installment (the "three-times rule"). When a lender establishes the minimum payment amount on a loan under an income-sensitive repayment schedule, a lender must consider the borrower's ability to pay, without violating the "three-times rule."
[§682.209(a)(7)(ii)]

*Interest Payments*

For loans that are repaid under a graduated, income-sensitive, or extended repayment schedule, the $360 and $600 annual payment requirements do not apply. However, in no instance may the payment amount be less than the amount of interest due and payable.
[HEA 428(b)(1)(L)(i); §682.209(c)]

## 9.6.E Adjusting the Borrower's Repayment Terms

In some cases, the lender may be required to adjust the borrower's repayment terms. Typically, this may occur in any of the following cases:

- The interest rate changes on a variable rate loan or an 8%/10% Stafford loan after it has been converted to the variable rate.
- The interest is capitalized.
- The borrower selects an income-sensitive repayment schedule (see subsection 9.8.C).
- The borrower requests a change in his or her repayment schedule (see section 9.8). A lender must comply with an eligible borrower's request to revise his or her choice of repayment schedule at least once every 12 months.

For more information on changing a borrower's installment amount in response to a change in the variable interest rate, see section B.2.

In adjusting the borrower's repayment terms, the lender generally has two options:

- Keep the number of installments the same and change the borrower's installment amount.
- Keep the installment amount the same and change the borrower's repayment period.

An increase in the variable interest rate of a Stafford, PLUS, or SLS loan may result in the loan not being fully repaid within the maximum repayment period, unless the lender increases the borrower's installment amount by an amount that violates the "three-times rule." In such cases, the lender may delay increasing the borrower's installment amount immediately to allow for future rate fluctuations that result in lower interest rates.

For a borrower with a standard or graduated repayment schedule (see subsections 9.8.A and 9.8.B, respectively), the lender must grant a mandatory administrative forbearance to the borrower (or endorser, if applicable) for a period of up to 3 years of payments in cases where the effect of a variable interest rate would result in a loan not being repaid within the maximum repayment period allowed.
[§682.209(a)(7)(i)(B)]

In cases where the effect of decreased installment amounts paid under income-sensitive terms would result in a loan not being repaid within the maximum repayment period allowed, the lender must grant a mandatory administrative forbearance to the borrower (or endorser, if applicable) for a period of up to 5 years.
[§682.209(a)(7)(viii); §682.211(i)(5)(ii)]

## 9.7 Disclosing Repayment Terms

The lender must disclose repayment information in simple and understandable terms, in a statement provided to the borrower at or before the beginning of the repayment period. To satisfy this requirement, the lender must send the borrower (at no cost to the borrower) a repayment disclosure during the time frames specified by regulation and outlined in detail in subsection 9.7.A.

A lender must offer the borrower a choice of a standard, graduated, income-sensitive, or, if applicable, an extended repayment schedule. The lender must also inform the borrower that he or she is eligible for income-sensitive repayment (including through loan consolidation), the procedures by which the borrower can choose income-sensitive repayment, and where and how more information

on income-sensitive repayment may be obtained. If a lender chooses to include repayment choices with the repayment notification, the lender must ensure that the timing of this notice also meets the requirements of subsection 9.7.A.

### Undeliverable Repayment Disclosures

The lender must convert the loan to repayment even if a borrower does not acknowledge the repayment disclosure. If the lender fails to provide disclosure information, this failure does *not*:

- Relieve a borrower of the obligation to repay the loan.
- Provide a basis for a claim for civil damages.
- Void the insurance or reinsurance obligation. [HEA 433(c)]

If the repayment disclosure for a Stafford or SLS loan borrower is returned to the lender as undeliverable, the lender is encouraged to resend the disclosure to the borrower in care of the borrower's parent(s) or legal guardian (if the address is known).

The lender also is encouraged to initiate skip tracing procedures at the time any Stafford, SLS, or PLUS loan repayment disclosure is returned undeliverable—rather than wait for the loan to become delinquent, at which point skip tracing is mandatory if not completed previously. See sections 11.7 and 11.8 for more information on skip tracing requirements.

### Repayment Disclosure Formats

Most guarantors provide repayment and disclosure statements for disclosing repayment terms to borrowers. A lender may use another written or electronic format suitable to its servicing systems and procedures (such as its own repayment disclosure form, coupon book, or billing statement) in lieu of a guarantor form. This format must include, at a minimum, the following elements:

- The lender's name and the address to which correspondence and payments should be sent.
- A telephone number accessible at no cost to the borrower from within the U.S., and, at the lender's option, an electronic address from which the borrower can obtain additional loan information.
- The scheduled date the repayment period begins.
- The estimated balance, including the estimated amount of interest to be capitalized, owed by the borrower as of the date the repayment period begins or the date of the disclosure, whichever is later.
- The actual interest rate on the loan.
- An explanation of any fees that may accrue or be charged to the borrower during the repayment period.
- The borrower's repayment schedule, including the due date of the first installment and the number, amount, and frequency of payments.
- Except in the case of a Federal Consolidation loan, an explanation of any special options the borrower may have for consolidating or refinancing the loan and the availability and terms of these other options.
- The estimated total amount of interest to be paid on the loan, assuming payments are made in accordance with the repayment schedule.
- A statement that the borrower has the right to prepay all or part of the loan at any time, without penalty.

For a PLUS or SLS loan, the lender is not required to provide the estimated total amount of interest to be paid on the loan if the lender provides the borrower with sample projections of monthly repayment amounts assuming different levels of borrowing and interest accruals resulting from capitalization of interest while the student is in school. Sample projections must disclose the cost to the borrower of principal and interest, interest only, and capitalized interest. In the case of a PLUS loan, the lender may rely on the PLUS promissory note and associated materials approved by the Department for purposes of meeting this requirement.

The repayment disclosure may contain a space for the borrower's signature and the date signed. However, the borrower is not required to sign and return the repayment disclosure.

In all instances, the initial repayment disclosure or any subsequent disclosure of the borrower's repayment terms must notify the borrower of capitalized interest, including the new principal balance and other changes in repayment terms (such as the monthly payment amount) resulting from the capitalization.

After the initial repayment disclosure is made, the lender may use any suitable format to redisclose subsequent repayment information to the borrower.
[HEA 433(b) and (c); §682.205(c) and (d)]

## 9.7.A Time Frame for Disclosure

A lender must provide repayment disclosure to a borrower within a time frame applicable to the borrower's loan type.

### Stafford Loans

The lender must notify a Stafford loan borrower of repayment terms no less than 30 days, and no more than 240 days, before the first payment due date. Guarantors recommend that the lender send a repayment reminder letter to the borrower at least 90 days before the grace period expiration date. Establishing solid contact with the borrower before repayment starts is critical to default prevention. Notifying the borrower during this 90-day time frame also gives the borrower the opportunity to do one of the following:

- Provide the lender with documentation that he or she has returned, or will return, to school before the expiration of the grace period.
- Make alternative repayment arrangements—such as graduated repayment or forbearance—if necessary.

Sending the repayment reminder letter may assist the lender in default prevention and reduce the administrative burden caused by prematurely converting the borrower's loan to repayment and then returning it to an in-school or grace status.

### PLUS Loans

For a PLUS loan, the lender must disclose the repayment terms at or before the beginning of the repayment period. For PLUS loans, the repayment period begins on the date of the last disbursement. The disclosure must be sent to the borrower—even if the loan will be placed into immediate deferment. The repayment disclosure may be sent with the initial disclosure outlined in subsection 7.6.A. The lender does not satisfy this disclosure requirement by merely stating that payments will be deferred while the borrower or dependent student, as applicable, is in school—or by providing a repayment schedule that covers only interest payments to be made while the borrower's loan is deferred.

The lender should indicate to the borrower that the repayment information provided is based on the loan amount when fully disbursed and, if the loan enters an immediate deferment status, the deferment end date (such as the anticipated graduation date), the amount of interest to be capitalized between the first and final disbursement and the first payment due date. The lender is not required to redisclose this information if changes occur in the future disbursement dates or amounts or in the borrower's repayment or deferment status. A lender is encouraged to advise the borrower of any substantive changes made in the borrower's repayment obligation.

### SLS Loans

A lender must notify an SLS loan borrower of the payment amount and actual first payment due date no less than 30 days, nor more than 240 days, before the date on which the first principal payment is due. The lender may disclose the repayment terms with other disbursement disclosures at the time of the first disbursement.

The lender must clearly indicate to the borrower that the repayment information provided is based on the loan amount when fully disbursed and, if the loan enters an immediate deferment status, the deferment end date (such as the anticipated graduation date), the amount of interest to be capitalized between the first and final disbursement and the first payment due date. The lender is not required to redisclose this information if changes occur in disbursement dates or amounts or in the borrower's repayment or deferment status. A lender is encouraged to advise the borrower of any substantive changes made in the borrower's repayment obligation.

It is not sufficient to provide a statement that payments are deferred while the borrower is in school or to provide a repayment schedule covering only the interest payments that are to be made while the borrower is in school.
[§682.205]

If repayment on an SLS loan is postponed to correspond with repayment on a Stafford loan, the lender should ensure that it provides the repayment disclosure in the required time frame.

## 9.7.B Dispute of Loan Terms

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

## 9.8 Establishing a Repayment Schedule

If the borrower elects to repay the loan through regular installments (see subsection 9.6.C for repayment options), the lender must offer the borrower a choice of the following:

- A standard repayment schedule.
- A graduated repayment schedule.
- An income-sensitive repayment schedule.
- An extended repayment schedule, if applicable.

Lenders must offer all borrowers their choice of a standard, graduated, or income-sensitive repayment schedule no more than 6 months before the first payment due date. In addition, lenders must offer an extended repayment schedule to borrowers who are considered "new borrowers" on or after October 7, 1998, and who have more than $30,000 in outstanding principal and interest in FFELP loans. This extended repayment schedule must provide a repayment period of no more than 25 years. Details regarding repayment schedule options are outlined in subsections 9.8.A through 9.8.D. For more information on Consolidation loan repayment, see section 14.5.

A borrower must select a repayment schedule within 45 days of the lender's notification and advise the lender of that choice. If a borrower does not respond within 45 days—or selects an income-sensitive repayment schedule but does not provide the required documentation—the lender must establish a standard repayment schedule. A borrower also may request a change in his or her repayment schedule. A lender must comply with an eligible borrower's request to revise his or her choice of repayment schedule at least once every 12 months.

A lender must combine, to the extent practicable, all FFELP loans owed by a borrower to the lender into a single account to be repaid under a single repayment schedule. For loans serviced in this manner, the word "loan" in this section means all of the borrower's loans that are combined by the lender into that account. However, for National Student Loan Data System (NSLDS) reporting, the Department requires that a lender maintain repayment records for each loan—even though the lender combined the loans into a single repayment schedule.
[§682.209(a)(7)(xi)]

### 9.8.A Standard Repayment Schedule

When a lender establishes a standard repayment schedule, the lender should schedule the borrower's payment amounts to be one of the following:

- An installment amount that is the same amount for each installment payment made during the repayment period, except that the borrower's final payment may be slightly more or less than the other payments.
- An installment amount that will be adjusted to reflect annual changes in the loan's variable interest rate.

The lender must require the borrower to repay the loan under a standard repayment schedule if the borrower meets either of the following criteria:

- The borrower does not select an income-sensitive or a graduated repayment schedule within 45 days after being notified by the lender to choose a repayment schedule.
- The borrower chooses an income-sensitive repayment schedule but does not provide the documentation requested by the lender within the time period specified by the lender.
  [§682.209(a)(7)(v) and (vi)]

### 9.8.B Graduated Repayment Schedule

When a lender establishes a graduated repayment schedule, the amount of the borrower's installment payment is scheduled to change (usually increasing) over the repayment period. When establishing these payment amounts, a lender should ensure that no single installment is more than three times greater than any other installment.

A lender is not required to have a separate payment agreement with the borrower if the graduated repayment schedule provides for the borrower to pay less than the minimum annual payment amount.
[§682.209(a)(7)(vii)(B)]

## 9.8.C
## Income-Sensitive Repayment Schedule

If a borrower selects an income-sensitive repayment schedule, the borrower must provide the lender with information on the expected total gross monthly income the borrower receives from all sources. Except for a spousal Consolidation loan, expected total monthly gross income from all sources does not include income earned or received by a borrower's spouse.

To ensure the income information is current, the borrower cannot provide the income information any earlier than 90 days before the first payment due date. If the borrower's loan entered repayment without the lender's knowledge, the lender may obtain the income information earlier than 90 days before the first payment due date.

The lender will determine whether the borrower qualifies for an income-sensitive repayment schedule based on the borrower's expected total monthly gross income. If the borrower reports income the lender considers insufficient to establish a monthly payment that will repay the loan within the maximum applicable repayment period, the lender must request documentation showing the amount of the most recent total monthly gross income from employment and other sources received by the borrower. This can include, if applicable, pay statements from employers and documentation of any income received by the borrower from other parties.

The lender must collect and review the borrower's income documentation annually and adjust the borrower's payment amount accordingly. To ensure income information is current, the borrower cannot provide the information any earlier than 90 days before the payment is scheduled to be adjusted.

The lender must inform the borrower that the loan must be repaid within the maximum repayment period allowed. However, the lender must grant a forbearance to the borrower—or endorser, if applicable—for a period of up to 5 years in cases where the effect of decreased installment amounts paid under an income-sensitive repayment schedule would result in a loan not being repaid within the maximum repayment period (see section 10.21).
[§682.209(a)(7)(viii)]

## 9.8.D
## Extended Repayment Schedule

The extended repayment schedule is limited to "new borrowers" on or after October 7, 1998, with an outstanding balance of principal and interest in FFELP loans totaling more than $30,000. The lender may schedule the borrower for standard or graduated installments over a period not to exceed 25 years.
[HEA 428(b)(9)(A)(iv); §682.209(a)(7)(ix)]

A "new borrower" on or after October 7, 1998, may qualify for an extended repayment schedule if the borrower has multiple lenders with an aggregate FFELP loan amount totaling more than $30,000. A lender must retain a record of the basis for determining a borrower's eligibility for an extended repayment schedule, if the total loan amount it holds is not more than $30,000.

## 9.9
## Interest Charges

If a borrower's loan is a subsidized Stafford loan, the federal government pays the interest that accrues during the in-school, grace, and authorized deferment periods. If the loan is an unsubsidized or a nonsubsidized Stafford loan, a PLUS loan, or an SLS loan, the borrower is responsible for paying all interest that accrues on the loan from the first disbursement date—including interest that accrues during deferment periods. For information on the interest charges applicable to Consolidation loans, see subsection 14.3.D and section 14.6.
[§682.202; §682.300]

## 9.9.A
## Annual Variable Interest Rate Charges

When servicing a variable-rate Stafford, SLS, or PLUS loan, a lender must adjust the interest rate annually on July 1 in accordance with interest rates established by the Department. The variable interest rate for a loan is based on the type of loan and the disbursement date. For more information on how a loan's variable interest rate is determined, see sections 7.4 and 7.5.

The adjustment to the variable interest rate on a loan may affect the monthly payment amount and the borrower's overall repayment terms. Refer to subsection 9.6.E for more information on adjusting the borrower's repayment terms.

Guarantors recommend that the lender inform the borrower of the variable interest rate change. The lender must inform the borrower of any changes in the payment amount.

For more information on current and past variable interest rates, refer to appendix H.

## 9.9.B
## Reduced Interest Rates

A lender may choose to charge a borrower an interest rate that is lower than the maximum rate permitted by statute (statutory rate). If a lower rate is charged, the lender must ensure that reports to the Department (such as the ED Form 799) are adjusted appropriately. (See subsection 7.4.B regarding lender disclosure requirements when offering lower interest rates.) The lender must notify the borrower, at the time the lower interest rate is offered, that the lower interest rate ends on the date the loan is purchased by the guarantor as a default or ineligible borrower claim. The loan will revert to the applicable statutory rate as of the date the defaulted loan or ineligible borrower claim is purchased.

## 9.9.C
## Excess Interest Rebates

In 1986 and 1992, Congress required lenders to refund interest to certain Stafford loan borrowers under specific circumstances. The process of refunding interest is commonly referred to as excess interest rebates or "windfall profits."

This requirement affected certain Stafford loan borrowers with fixed rates of 7%, 8%, 9%, or 8%/10%. Until January 1, 1994, lenders were required to make excess interest rebates. On or before January 1, 1995, lenders were required to convert fixed-rate Stafford loans that were eligible for interest rebates to a variable interest rate. Loans that are converted to a variable interest rate under these provisions require lenders to adjust the interest rate annually on July 1.

For more information about which Stafford loans were eligible for excess interest rebates, and converting these loans to a variable interest rate, see section H.2.

## 9.9.D
## Payment of Accrued Interest on Loans Not Eligible for Federal Interest Benefits

A lender must arrange with the borrower of a loan that is not eligible for federal interest benefits (an unsubsidized or nonsubsidized Stafford, PLUS, or SLS loan) the way in which the borrower will pay accruing interest during periods when regular principal payments are not due. Interest begins accruing on the date of the first disbursement and may become a substantial sum over the course of a long period of continuous enrollment or deferment. The loan file or servicing history must include documentation of the agreement (between the lender and borrower) for the borrower to satisfy the interest by one of the following methods:

- Monthly or quarterly interest payments, in which the borrower pays the interest as it accrues.
- Capitalization as permitted by federal regulations and the terms of the borrower's promissory note. The borrower repays the accrued interest as part of his or her regular repayment period.
- A single lump sum payment at the end of a deferment period or when repayment of principal begins or resumes.

The application and promissory note provides the borrower the opportunity to indicate how accrued interest will be paid. For a Stafford loan made under the Master Promissory Note (MPN), the borrower's signature on the note authorizes the lender to capitalize unpaid accrued interest on all the borrower's FFELP loans, including those made under the MPN.

## 9.10
## Capitalizing Accrued Interest

Capitalization of interest on all FFELP loans is permitted under the terms of the application and promissory note and federal regulations. A lender capitalizes interest by adding accrued interest to the loan's principal balance.

## 9.10.A
## Permitted Capitalization

A lender may capitalize unsubsidized interest that accrues during:

- An in-school period or grace period, if capitalization is expressly authorized by the promissory note (or with the written consent of the borrower).
- A period of authorized deferment or authorized forbearance, except a period of administrative forbearance granted to collect documentation of a deferment, forbearance, change in repayment plan, or loan consolidation (see section 10.19).

A lender also is permitted to capitalize the outstanding accrued interest without the written consent of the borrower during the following periods of administrative forbearance:

- Between the original repayment start date and the revised start date, including a situation when the lender, after converting the loan to repayment, learns of a new out-of-school date that is earlier than was previously reported.
- The period during which payments were made but subsequently returned due to a borrower's death or total and permanent disability.
- When collection activities on a loan were suspended pending *(a)* the outcome of a bankruptcy action, closed school, false certification, or unpaid refund discharge determination or *(b)* the receipt of documentation of a death, disability, closed school, false certification, or unpaid refund claim or discharge request.
- The period during which the loan was held by the guarantor due to a claim purchase. The capitalization may include interest accrued from date of claim payment through the repurchase date. The lender must document that the capitalization was a result of a repurchase. If the repurchase is due to the loan's loss of guarantee, see subsection 12.3.D.

## 9.10.B Capitalization Frequency

To determine when the lender may capitalize interest, the lender should refer to the following instructions.

### Subsidized and Unsubsidized Stafford Loans First Disbursed on or after July 1, 2000

The lender may capitalize unpaid interest only as follows:

- When the loan enters repayment.
- When a deferment ends.
- When a forbearance ends.
- When the loan defaults. [§682.202(b)(4)(ii)]

### Unsubsidized Stafford Loans First Disbursed October 7, 1998, to June 30, 2000, Inclusive

The lender may capitalize unpaid interest only as follows:

- When the loan enters repayment.
- When the grace period ends.
- When a deferment ends.
- When a forbearance ends.
- When the loan defaults. [HEA 428H(e)(2)]

### Subsidized Stafford Loans First Disbursed Prior to July 1, 2000, Unsubsidized Stafford Loans First Disbursed Prior to October 7, 1998, and All PLUS and Consolidation Loans

A lender may capitalize the interest that accrues during in-school, grace, deferment, and forbearance periods no more frequently than quarterly, and again when repayment is scheduled to begin or resume.

A lender may capitalize interest that accrues during the following periods only on the date repayment of principal is scheduled to begin:

- During the period from the date the first disbursement was made to the beginning date of the in-school period.
- During the period from the date the first installment payment was due to the date it is made.
- During a period when the borrower's loan was in repayment, but the borrower made no payments because:
  - The lender received late notification that the borrower withdrew or ceased to be enrolled on at least a half-time basis, as applicable, from the school before the lender's projected deferment end date, out-of-school date, or date on which the loan is fully disbursed.
  - The lender learned after the fact that the borrower or a dependent student (based on whose status a PLUS loan borrower obtained the deferment) did not maintain in-school deferment eligibility. [§682.202(b)]

Guarantors strongly encourage a lender to capitalize a borrower's outstanding accrued interest in all cases in which capitalization is permitted in order to prevent delinquency.

## 9.10.C Capitalization of Delinquent Interest Payments

If a borrower with an unsubsidized or a nonsubsidized FFELP loan fails to fulfill an agreement to make interest-only payments during the in-school, grace, deferment, or forbearance period, the lender:

- Must notify the borrower that he or she has 30 days to remit the delinquent interest payment unless the notification was provided to the borrower on the application and promissory note, repayment schedule, deferment or forbearance form, or other written notification provided to the borrower in the course of servicing the loan.

- May capitalize the accrued interest for the in-school, grace, deferment, or forbearance period, if the borrower does not pay the interest within the 30-day period. The lender may continue to capitalize interest no more frequently than quarterly during the balance of the in-school, grace, deferment, or forbearance period.

In most cases, a lender may not file a default claim solely due to delinquent interest. See subsection 12.6.A for more information on allowable interest-only default claims.

If the lender cannot notify the borrower of the interest payment delinquency because of an unresolved bad address, the lender may capitalize the delinquent interest without notification if that payment remains outstanding and unpaid for a period of 30 days.

## 9.11 Applying Borrower Payments and Funds Returned by the School

A lender must ensure that all payments made by a borrower and any funds returned by the school are posted accurately and promptly to the borrower's loan in accordance with the requirements of this section.

## 9.11.A Applying Regular Borrower Payments

A lender may apply a payment received first to any accrued late charges or permissible collection costs, then to outstanding interest, and finally to outstanding principal. Permissible collection costs may include charges incurred by the lender in collecting a missed payment, including court costs and attorneys' fees. The lender may not apply a borrower's payment to "normal" collection costs, such as those associated with preparing and mailing notices and letters, personal contacts, and telephone calls. Regardless of how those monies are applied with respect to principal, interest, late charges, or collection costs, any payment received during a period when a borrower is required to make payments that equal or exceed the borrower's scheduled payment amount must be used to advance the borrower's due date. When appropriate, any amount that exceeds the borrower's scheduled payment amount should be applied as a prepayment, as outlined in subsection 9.11.B.
[§682.209(b)]

The lender may advance the due date on the loan if the borrower makes a payment that is within $5 of the amount due or of the regularly scheduled payment amount if the application of a $5 tolerance will prevent a paying borrower from becoming delinquent or prevent a delinquent borrower from defaulting. The determination of whether to apply a $5 tolerance and whether the tolerance is based on the regularly scheduled payment amount or on the total amount due must be based on the lender's established policy. However, regardless of the lender's $5 tolerance policy, any time the lender receives an amount that equals or exceeds the regularly scheduled payment amount, the lender must advance the due date for the number of full regularly scheduled payments received. The lender must apply its policy for advancement of due dates consistently.
[§682.202(f) and (g); §682.411; DCL 96-L-186/96-G-287, Q&A #46, and May 1996 supplement to the DCL]

## 9.11.B
## Applying Prepayments

A borrower may prepay his or her loan in full or in part at any time, without penalty and without liability for unearned interest. The lender may credit the entire prepayment amount first to any late charges accrued or collection costs, then to any outstanding interest, and then to outstanding principal.
[§682.209(b)]

If the outstanding principal balance of the borrower's loan is calculated under the Rule of 78s method and the borrower makes a prepayment, the borrower may be entitled to a rebate of unearned interest already paid.

A prepayment is a payment that is received:

- For a subsidized Stafford loan or a Consolidation loan eligible for interest benefits, during a period when the borrower is not responsible for making payments of either principal or interest (during in-school, grace, and authorized deferment periods).
- During a period when the borrower is responsible for paying only accruing interest (such as during a period of deferment or forbearance) and for which the borrower has previously authorized the lender to capitalize the accruing interest.
- During a period when the borrower is responsible for making payments of both principal and interest and the payment received is greater than the amount of the borrower's regular installment.
- During a bankruptcy proceeding if the borrower is not responsible for making loan payments.
- For the entire ineligible portion of a loan that the borrower has repaid in response to a final demand letter—if the borrower is only partially ineligible for the loan (see section 5.14).

Unless the borrower requests otherwise, a prepayment received during a period when regular payments are due must be applied to future installments if the payment received equals or exceeds the regularly scheduled payment amount. The lender must notify the borrower that the prepayment has been used to satisfy future installments in one of the following ways:

- Notifying the borrower *in advance* using a prominent statement in the borrower's coupon book or billing statement that any additional full payment amounts submitted to the lender without instructions will be applied to advance the due date on the loan.
- Notifying the borrower *after* the prepayment has been applied of how the payment was applied and the borrower's next scheduled payment due date.

If the borrower makes a prepayment during a period of enrollment, grace, deferment, or forbearance and provides no instruction regarding application of the prepayment, the lender may use that payment to advance the payment due date. If a prepayment is applied during these periods, the lender is encouraged to provide notice to the borrower of the way in which the prepayments are applied.
[§682.209(b)]

The loan's servicing history must reflect any borrower's request regarding the application of prepayments and the manner in which the prepayments were applied. The lender is not required to maintain payment coupons or submit documentation with a claim to validate the prepayments. However, the guarantor may require the lender to provide documentation of any borrower request regarding the application of payments as part of a program review or to substantiate a claim in the event of a borrower dispute.

## 9.11.C
## Changing the Borrower's Payment Due Date

Once a lender establishes a borrower's payment due date and the borrower begins making payments, the lender may—at its discretion or at the borrower's request—reschedule the payment due date for a different day of the month. The lender may advance the date up to one calendar month without a forbearance agreement with the borrower. For example, on a loan for which a payment is due February 25, the lender may advance the due date to March 24.

If a change in the borrower's payment due date would bring the loan current (by eliminating any delinquency that exists on the loan) or require the lender to forego due diligence activities, a forbearance agreement with the borrower is required.

EXAMPLE
A borrower's payment is due on the first of each month, and the borrower owes the January 1 payment. On February 10, the borrower requests that his or her payment due date be changed to the 15th of each month. The lender may negotiate a forbearance that requires no payment and capitalize the outstanding interest to bring the account current through February 15, with the next payment due March 15.

If a payment due date is being changed at the lender's option (for example, due to the lender's conversion to a new servicing system), the borrower must be notified of the change early enough to comply with the new terms. The lender may develop its own format for disclosing repayment information or may use a form provided by the guarantor.
[§682.208(d)]

## 9.11.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 9.11.B for additional requirements for providing the notice to the borrower.

## 9.11.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. The lender must reduce the guarantee fee and origination fee proportionate to the returned amount. If the lender paid the guarantee fee or origination fee instead of deducting the fee from the borrower's loan, the lender may retain the fee and is not required to refund the fee to the borrower. The lender must notify the guarantor promptly whenever 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)]

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 discharged 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 4.7.

# 9.12
# Paid-in-Full Loans

When a loan is paid in full by the borrower, the lender must either return the original or a true and exact copy of the promissory note to the borrower or notify the borrower that the loan is paid in full.

A lender must retain loan records for a period of not less than:

- 3 years after the date the corresponding loan is paid in full by the borrower.
- 5 years after the date the lender receives payment in full from any other source.

For more information on lender recordkeeping requirements for paid-in-full loans, see subsection 3.4.A.

The lender must report to the guarantor all loans that are paid in full. For information on reporting paid-in-full loans to the guarantor, see subsection 3.5.H.

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Chapter 10 describes borrower eligibility criteria and lender processing requirements for deferment and forbearance of FFELP loans. The information presented in this chapter applies to Stafford, PLUS, and SLS loans. Where noted, provisions also apply to Consolidation loans. Other requirements specific to Consolidation loans are covered in chapter 14.

Servicing activities associated with processing deferments and forbearances include:

- Determining borrower eligibility for deferments and forbearances.
- Applying deferments and forbearances to an account.
- Establishing repayment after deferment or forbearance.
- Reporting transactions to the guarantor.
- Reporting the loan status or a deferment or forbearance to a national credit bureau (see subsection 3.5.C).
- Responding to a borrower or endorser inquiry within 30 days of receiving the inquiry. Such inquiries may include requests for deferments, forbearances, and other information.
  [§682.208(c)(1)]

## 10.1 Authorized Deferment

Deferment is a tool available to borrowers to help them meet their loan repayment obligations. Once the repayment period has begun, the borrower is entitled to defer principal payments on a FFELP loan when applicable eligibility criteria are met. In the case of a Stafford loan, the borrower may not be granted a deferment until after the loan's grace period has expired. However, the borrower may—and in some cases may be required to—request that the grace period be waived or shortened in order to be eligible for the deferment (see section 9.3).

A lender is not required to grant a deferment if it has information indicating that the borrower is ineligible for the deferment. If the lender denies the borrower the deferment, it must clearly document the reason for the denial in the loan file or servicing history.

A lender's failure to act on any borrower request for deferment within 30 days of its receipt may result in a returned or rejected claim, if the loan is later submitted as a claim.
[§682.208(c)(1)]

### 10.1.A General Deferment Eligibility Criteria

There are several conditions under which borrowers qualify for deferment. In granting a deferment, the lender should be aware of the following general characteristics of deferments:

- Deferments are entitlements. Generally, if a borrower demonstrates eligibility for a deferment and provides the lender with the necessary documentation required to establish eligibility, the borrower may not be denied the deferment.
- The borrower's eligibility for a deferment depends on the borrower's meeting specific criteria, the type of loan for which the deferment is being sought, and the date on which the borrower received his or her first FFELP loan.
- If the dependent student for whom a parent borrower obtained one or more PLUS loans meets the conditions required for the in-school or rehabilitation training deferment, the parent borrower may qualify for deferment for all of his or her PLUS loans. See section 10.5 for information regarding the eligibility criteria.
- If a PLUS loan is made to two parents as comakers or a Consolidation loan is made to spouses as comakers, the loan may not be deferred unless each comaker requests deferment and satisfies applicable eligibility requirements for deferment. If each comaker qualifies under a separate deferment provision, the lender may defer the loan under one of those deferment types.
- Endorsers are not entitled to deferment. If an endorser is repaying the loan and has temporary difficulty in continuing repayment, he or she may request a forbearance.
  [§682.210(a)(11)]

- In most cases, the borrower must request a deferment, either verbally or in writing, and provide the lender with documentation necessary to support the borrower's eligibility for the deferment. However, if at any time during the collection efforts the lender becomes aware of circumstances indicating that the borrower may qualify for a deferment, the lender must explain the deferment criteria and make the deferment option available to the borrower. Deferment eligibility criteria and documentation are outlined under each deferment type in sections 10.2 to 10.17.

- A delinquent borrower remains eligible for deferment. A borrower who has not yet defaulted must be granted a deferment if the borrower qualifies. For more information on deferments and delinquent loans, see subsection 10.1.F.
  [§682.210(a)(7)]

- If a borrower's loan is in default, and his or her deferment eligibility begins *after* the date of default (the 270th day of delinquency for loans repayable in monthly installments), the borrower must make payment arrangements acceptable to the lender to resolve the default prior to the payment of a default claim by the guarantor in order to be considered eligible for the deferment (see subsection 10.1.G).
  [§682.209(a)(8)]

### Borrower-Specific Deferments

The Department has indicated that deferments generally are borrower-specific—not loan-specific. This means that time limits should generally be enforced for each borrower, rather than for a borrower's individual loans or groups of loans (see *Example 1* below). However, if all of the borrower's loans are paid in full (except through consolidation) and the borrower subsequently obtains a new loan, the borrower is eligible for all deferments applicable to that loan, despite any previous periods of deferment (see *Example 2* below).

*Example 1*
A borrower has used 36 months of unemployment deferment on loans A and B, then obtains additional loans before paying loans A and B in full. The borrower is not eligible for an unemployment deferment on the additional loans, even if loans A and B are subsequently paid in full.

*Example 2*
A borrower has used 36 months of unemployment deferment on loans A and B, then pays both loans in full. After both loans are paid in full, the borrower obtains new loans. The borrower is eligible for an additional 36 months of unemployment deferment on the new loans.
[§682.210(a)(1)(ii)]

### "New Borrower" Categories

In some cases, a borrower must be a "new borrower" to be eligible for certain types of deferments. The Department has established two "new borrower" categories that determine a borrower's eligibility for certain types of deferments. Each of these categories of borrowers is eligible for a distinct set of deferments.

- *"New Borrower" July 1, 1987, to June 30, 1993*
  A borrower:
  - Whose first FFELP loan was made on or after July 1, 1987, and before July 1, 1993, or who had an outstanding balance on a loan obtained on or after July 1, 1987, and before July 1, 1993, when he or she obtained a loan on or after July 1, 1993.
  - Who obtains a Federal Consolidation loan made before July 1, 1993, that repays a FFELP loan disbursed before July 1, 1987, for a period of enrollment beginning before July 1, 1987.

- *"New Borrower" July 1, 1993*
  A borrower whose outstanding FFELP loans were all made on or after July 1, 1993, and when his or her first FFELP loan was made on or after July 1, 1993, had no outstanding FFELP loans that were made before July 1, 1993.

Once a borrower is considered to be a "new borrower" in one of the preceding categories, the borrower remains eligible for the deferments in that category on all subsequent loans. Once the loans that qualified the borrower as a "new borrower" in one category are paid in full (except through consolidation), the borrower will be eligible for deferment based on provisions effective for new loans he or she obtains.

The lender should determine a borrower's deferment eligibility, based on borrower information contained in the lender's records and any information provided by the borrower, before approving a deferment for that borrower. The lender may rely on the borrower's certification, as evidenced by the borrower's signature on the deferment form or other documentation or certification provided by the borrower, that he or she meets the deferment eligibility criteria. If the lender is aware of any conflicting information related to the borrower's deferment eligibility, the lender must resolve the discrepancy before approving or denying the deferment.

If, after approving the deferment, the lender receives information indicating that the borrower did not qualify for all or a portion of the deferment, the portion of the deferment for which the borrower did not qualify must be canceled. The lender must make any necessary interest adjustments to the borrower's account. The lender may grant an administrative forbearance to cover past due payments resulting from the cancellation of all or part of the deferment. See section 10.19 for information regarding the application of an administrative forbearance.

## 10.1.B Documentation Required for Authorized Deferment

A lender may accept a borrower's verbal request for deferment. However, the lender may not grant the deferment until it receives the required documentation. The lender must document a borrower's request (except for an in-school deferment) and eligibility for a deferment and retain the documentation as required under subsection 3.4.A.

The common deferment forms are used widely for obtaining the signatures and information necessary to grant deferments (the form applicable to each deferment type is provided in the subsection entitled "Deferment Documentation" in sections 10.2 to 10.17). However, the lender is encouraged to be flexible in accepting information that would support a borrower's deferment entitlement. The lender may use combinations of verbal requests and supporting documentation from an appropriate source (e.g., the borrower, school, guarantor, National Student Clearinghouse, or National Student Loan Data System [NSLDS])—provided the documentation supplies sufficient information to ensure that the borrower meets all eligibility criteria.

## 10.1.C Deferment Length

All deferments begin on the date the condition entitling the borrower to the deferment first existed, as determined by the lender, except an initial unemployment deferment that is based on a borrower's self-certification (see subsection 10.16.A).

An authorized deferment period ends on the earliest of the following dates:

- The date the condition establishing a borrower's eligibility for the deferment ends.
- The date the borrower has used the maximum amount of time allowed for that type of deferment.
- The expiration of the period covered by the required certification.
- In the case of an in-school deferment, the student's anticipated graduation date (AGD) certified by an authorized official of the school and updated by notice to the lender from the school or guarantor. For more information on in-school deferments, see section 10.5. [§682.210(a)(6)]

## 10.1.D Payment of Interest during Deferment

If a subsidized Stafford loan, Consolidation loan, or any portion of a Consolidation loan is eligible for federal interest benefits, the borrower is not responsible for paying the interest that accrues on the loan or subsidized portion of the loan during eligible deferment periods and post-deferment grace periods. If the borrower is not entitled to interest benefits, the borrower is responsible for paying interest that accrues during periods of deferment and making arrangements with the lender to pay the interest in installments or to have it capitalized (see subsection 9.9.D).

## 10.1.E
## Reporting Deferments

A lender must report each deferment to the appropriate guarantor, including the type of deferment granted and the deferment begin and end dates. When a deferment ends, the lender must notify the guarantor of the new loan status, the effective date of the status, or any deferment extension and the new deferment end date. For more information on reporting loan status changes, see subsection 3.5.D.

## 10.1.F
## Deferment of Delinquent Loans

In many cases, backdating a deferment (as permitted) will remove any delinquency that exists on a borrower's loan before the deferment's effective date. If this is not the case, the lender is encouraged to grant an administrative forbearance to cover the existing delinquency and bring the loan current to the point at which the deferment begins. If the lender does not grant the borrower a forbearance, the borrower resumes—when the deferment or post-deferment grace period expires—any delinquency status that existed when the deferment period began.
[§682.210(a)(7)]

## 10.1.G
## Deferment of Defaulted Loans

A lender must grant a deferment if the required deferment request and documentation are received after a loan enters default but the borrower's deferment eligibility began before default. The lender must process the deferment and recall the default claim (if one was filed) as outlined in subsection 12.2.B. If the loan has been purchased as a default, the lender may be required to repurchase the loan as outlined in section 12.5.

A borrower's defaulted loan is not eligible for a deferment that begins after the date of default, unless the borrower makes payment arrangements acceptable to the lender that resolve the default prior to the payment of a default claim by the guarantor. Following are examples of payment arrangements the lender may wish to consider acceptable:

- An administrative forbearance applied in conjunction with a deferment.
- A signed forbearance agreement for the entire period of delinquency not covered by the deferment. (See subsection 10.18.G for information regarding forbearance granted after default.)
- Payments sufficient to fulfill delinquent payment amounts.
- A combination of forbearance and payments.
- A new signed agreement to repay the debt submitted with a deferment form to permit the lender to grant a forbearance for the preexisting delinquency.

If a claim has been filed on the loan, the lender may be required to recall or repurchase the claim, as appropriate (see subsection 12.2.B and section 12.5, respectively).

## 10.1.H
## Post-Deferment Grace Period

If any of a borrower's loans were first disbursed before October 1, 1981, the borrower is entitled to defer principal payments during a 6-month post-deferment grace period on those loans. The post-deferment grace period begins on the first day after an authorized deferment ends (when the borrower's deferment eligibility or the maximum time limit for the deferment expires). The post-deferment grace period expires on the day that is 6 consecutive months from the date it began. The repayment period of the loan resumes or begins on the day after the post-deferment grace period expires.

An eligible borrower may receive a post-deferment grace period after each deferment period or combination of periods—except after unemployment deferments. A borrower may receive a post-deferment grace period only once following a period of unemployment deferment. The borrower may waive in writing any or all of his or her post-deferment grace. That post-deferment grace may not be used later.

A borrower that is eligible for interest benefits during a period of deferment is eligible for that subsidy during the post-deferment grace period.

A lender may encounter a situation in which some—but not all—of a borrower's loans qualify for the post-deferment grace period. If the borrower does not waive the post-deferment grace period on the eligible loans, or if the loans will not enter repayment at the same time for other reasons (such as different repayment start dates), the lender may grant forbearance to align the repayment start dates of the loans. The borrower must authorize the forbearance in writing, which is accomplished when the borrower signs any new common deferment form.

## 10.1.I
## Establishing Repayment after Deferment

A borrower's first payment after deferment must be due no later than 60 days—plus the permissible 30-day extension in the case of a Stafford or SLS loan, as outlined in subsections 9.5.A and 9.5.C—after the date on which an authorized deferment period ends, unless the borrower makes payments during the deferment period. For information on payments made during deferment, see subsection 9.11.D.

A lender may grant an administrative forbearance to resolve any delinquency that exists before a borrower's deferment period begins or that remains after the borrower's deferment period ends. If the lender grants an administrative forbearance, the loan should enter repayment after the deferment or administrative forbearance period with a next payment due no later than 60 days after the deferment or administrative forbearance period end date. For information on deferment of delinquent loans, see subsection 10.1.F. For information on granting an administrative forbearance for a period of delinquency before or after a deferment, see subsections 10.19.F and 10.19.G.

The borrower must be notified of interest capitalized as a result of the deferment, including the new principal balance and any other repayment term changes (such as a new monthly payment amount) that result from the capitalization. The lender may develop its own format for disclosing the information or use the guarantor's repayment schedule and disclosure statement.

## Deferment Eligibility Chart — Figure 10-1

| Form | Deferment Type | Time Limit | Stafford and SLS Loans | | | PLUS Loans | | | | Consolidation Loans | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Pre 7/1/87 Borrower | New[1] Borrower 7/1/87 to 6/30/93 | New[2] Borrower 7/1/93 | Loans Before 8/15/83 | Pre 7/1/87 Borrower | New[1] Borrower 7/1/87 to 6/30/93 | New[2] Borrower 7/1/93 | Borrower Consolidates Before 7/1/93[7] | New[2] Borrower 7/1/93 |
| SCH | In-School: Full Time | None | • | • | • | • | • | • | • | • | • |
| | In-School: Half Time | 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 that repaid a loan made before July 1, 1987, for a period of enrollment beginning before July 1, 1987, is eligible for in-school deferment only if the borrower attends school full time.

## 10.2
## ACTION Program Deferment

An ACTION Program deferment is intended to cover full-time paid volunteer service with an organization participating in a program authorized under Title I of the Domestic Volunteer Act of 1973 (ACTION programs).

### 10.2.A
### Eligibility Criteria—ACTION Program

This deferment is available only if the borrower has an outstanding balance on a FFELP loan that was made before July 1, 1993, or the borrower had an outstanding balance on a FFELP loan made before July 1, 1993, when he or she obtained a loan disbursed on or after July 1, 1993. The deferment is also available to a PLUS borrower if that borrower has a PLUS loan first disbursed before August 15, 1983.

To qualify for this deferment, a borrower must request it and provide the lender with a statement from an official of the volunteer program certifying:

- That the borrower has agreed to serve as a volunteer on a full-time basis for at least one year.
- The date on which the borrower's service began.
- The date on which the borrower's service is expected to end.

### 10.2.B
### Deferment Documentation—ACTION Program

If a borrower requests an ACTION Program deferment, the lender should forward to the borrower the following common deferment form:

**PUB**
Public Service Deferment Request

### 10.2.C
### Length of Deferment—ACTION Program

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. The deferment ends no later than 3 years after the date on which it began, or the date on which the borrower's commitment is certified to end or actually ends, whichever is earlier.
[§682.210(l)]

## 10.3
## Economic Hardship Deferment

An economic hardship deferment is intended to cover a borrower who earns less than minimum wage or exceeds a federally defined debt-to-income ratio.

### 10.3.A
### Eligibility Criteria—Economic Hardship

This deferment is available only if the borrower had no outstanding balance on a FFELP loan as of the date he or she obtained a loan on or after July 1, 1993.

To qualify for this deferment, a borrower must request it and provide the lender with documentation that he or she meets at least one of the following eligibility criteria:

1. The borrower has been granted an economic hardship deferment under either the FDLP or Federal Perkins Loan Program for the period of time for which the borrower has requested an economic hardship deferment for his or her FFELP loan.

2. The borrower is receiving payment under a federal or state public assistance program, such as Aid to Families with Dependent Children, Supplemental Security Income, Food Stamps, or state general public assistance.

3. The borrower is working full time and has a monthly income that does not exceed the greater of *(a)* the minimum wage rate described in section 6 of the Fair Labor Standards Act of 1938 or *(b)* an amount equal to 100% of the poverty line for a family of two, as determined in accordance with section 673(2) of the Community Service Block Grant Act *(see Note 1 below)*.

4. The borrower is working full time and has a federal education debt burden that equals or exceeds 20% of the borrower's monthly income. The borrower's income minus such burden must be less than 220% of the amount described under item 3 above *(see Notes 1 and 2 below)*.

5. The borrower is not working full time and has a monthly income that does not exceed twice the amount described under item 3 above and, after deducting an amount equal to the borrower's federal education debt burden, the remaining amount of that income does not exceed the amount specified in item 3 above *(see Notes 1 and 2 below)*.

6. The borrower is or will be serving as a Peace Corps volunteer.

A borrower who is or will be serving as a Peace Corps volunteer may be eligible for either a Peace Corps deferment or an economic hardship deferment. A Peace Corps deferment is available to a borrower who had an outstanding balance on a FFELP loan that was made before July 1, 1993, or who had an outstanding balance on a loan made before July 1, 1993, when he or she obtained a loan disbursed on or after July 1, 1993. An economic hardship deferment is available to a "new borrower" who had no outstanding balance on a FFELP loan as of the date he or she obtained a loan on or after July 1, 1993. Lenders are encouraged to offer forbearance to any borrower who has exceeded the deferment limit in completing his or her Peace Corps service.
[DCL GEN-98-16]

*Note 1:*
A borrower is considered to be working full time if he or she is expected to be employed for at least three consecutive months at 30 or more hours per week. For a period of deferment granted under items 3 through 5 above, the lender must require the borrower to submit evidence showing the amount of the borrower's monthly income. A borrower's monthly income is the gross amount the borrower received from employment, if applicable, and from other sources, or one-twelfth of the borrower's adjusted gross income, as recorded on the borrower's most recently filed federal income tax return. A borrower who is unemployed, incarcerated, disabled, or on a temporary unpaid leave of absence from work may qualify for an economic hardship deferment if he or she provides the lender with documentation of his or her income. Any borrower who does not have income when applying for an economic hardship deferment must provide a self-certifying statement, either on the deferment form or in a separate statement, indicating that he or she has no income. If the borrower resides in a foreign country and submits proof of income in foreign currency, the amounts must be converted to U.S. dollars before the lender determines deferment eligibility. Deferment eligibility for borrowers with foreign income will be based on poverty guidelines for the last state in which the borrower resided.

*Note 2:*
To determine a borrower's federal education debt burden for purposes of an economic hardship deferment under items 4 and 5 above, the lender must count:

- The actual monthly payment amounts that are owed on federal postsecondary education loans, if the loans are scheduled to be repaid in 10 years or less.

- The monthly payment amounts that would have been owed on federal postsecondary education loans based on a 10-year repayment schedule, if the loans are scheduled to be repaid in more than 10 years.

Lenders must count a proportional share of any payments due—or that would have been due—less frequently than monthly. Lenders also must include payments due on a defaulted loan if the borrower has made repayment arrangements satisfactory to the holder of the defaulted loan. The lender must document the amount of the monthly payments that would have been owed on all federal postsecondary education loans during the deferment period based on repayment agreements in place at the time the deferment is being granted.

## 10.3.B Deferment Documentation—Economic Hardship

If a borrower requests an economic hardship deferment, the lender should forward to the borrower the following common deferment form:

**HRD**
Economic Hardship Deferment Request

Documentation should include pay stubs, a copy of the borrower's most recently filed federal tax return, or other official documents noting the borrower's income and, if applicable, copies of repayment schedules or notices on educational loans. A borrower who qualifies for deferment based on his or her Peace Corps service is not required to submit income documentation, but must submit documentation from the Peace Corps showing that he or she is or will be serving as a volunteer.

A borrower who is newly self employed may not be able to provide traditional documentation of income. In order for a newly self-employed borrower to qualify for an economic hardship deferment, the borrower must provide the lender with a self-certifying statement of projected monthly income from all sources. In addition, the borrower must provide documentation of the newly formed business and

documentation of the borrower's involvement in that business. Documentation that may be used for newly self-employed borrowers includes, but is not limited to:

- A statement from the borrower's accountant.
- A copy of the Articles of Incorporation for the business venture.
- A copy of the Business Charter showing the borrower's involvement.
- An application for a tax identification number.

## 10.3.C Length of Deferment—Economic Hardship

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. The deferment ends on the date the condition establishing the borrower's eligibility for the deferment ends. This deferment may be granted for periods of up to 1 year at a time and may be renewed for a total that, collectively, do not exceed 3 years. For a borrower who is serving as a volunteer in the Peace Corps, the deferment may be granted for the lesser of the borrower's full term of service or the borrower's remaining period of economic hardship deferment eligibility under the 3-year maximum. [§682.210(s)(6)]

## 10.4 Graduate Fellowship Deferment

A graduate fellowship deferment covers study under an eligible graduate fellowship program.

## 10.4.A Eligibility Criteria—Graduate Fellowship

To qualify for this deferment, a borrower must request it and provide the lender with a written statement from an authorized official of the fellowship program. This statement must indicate the anticipated completion date of the program and must certify the following information with respect to the borrower:

- The individual holds at least a bachelor's degree conferred by an institution of higher education.
- The individual will be engaged in full-time study (which may be independent of an educational or cultural institution) in an academic or professional subject for which he or she has demonstrated an interest and ability and for which he or she has been recommended by an institution of higher education.

The fellowship program must:

- Provide sufficient financial support to the student to allow for full-time study for at least 6 months.
- Require a written statement from each applicant explaining the applicant's objectives before award of that financial support.
- Require the graduate fellow to submit periodic reports, projects, or other evidence of his or her progress.
- Accept any applicable course of study at a foreign school for completion of the fellowship program.

## 10.4.B Deferment Documentation—Graduate Fellowship

If a borrower requests a graduate fellowship deferment, the lender should forward to the borrower the following common deferment form:

**EDU**
Education Related Deferment Request

## 10.4.C Length of Deferment—Graduate Fellowship

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. The deferment ends on the date the borrower withdraws or completes the fellowship program, whichever is earlier.
[§682.210(d)]

## 10.5
## In-School Deferment and Summer Bridge

An in-school deferment is intended to cover both full-time and half-time study at an eligible school. A lender must grant an in-school deferment if it receives information that supports the borrower's eligibility for the deferment. The guarantor forwards this information to the lender in the following cases:

- When the guarantor learns of circumstances that may entitle a borrower to an in-school deferment (which often occurs during default prevention activities).
- When the guarantor receives a request and documentation for the deferment from the borrower (either verbally or in writing, including a request on the Stafford Master Promissory Note (MPN) or PLUS common application and promissory note).
- When the guarantor receives verification of the borrower's eligibility for the deferment from the school.

If the lender receives information from the guarantor, the lender may rely on the information provided. The lender should require neither the borrower nor school to complete or submit any additional paperwork.

### 10.5.A
### Eligibility Criteria—In-School

A student's in-school enrollment includes any combination of courses, special studies, research, or work experience that the school considers to constitute a course of study. Full-time or half-time enrollment is determined by the individual school and may vary according to whether the student is a graduate or undergraduate student; whether the enrollment is taking place during the summer or a regular session; and according to the nature of the program. Enrollment in a correspondence school program alone is considered half-time enrollment. The student's full-time or half-time enrollment also may be the result of adding together simultaneous enrollments at more than one school, provided that a single school certifies total enrollment for all of the schools.

Medical interns and residents (except dental interns) cannot be certified as enrolled students for the purposes of in-school deferment eligibility. These borrowers are prohibited from receiving or continuing an in-school deferment on the basis of at least half-time study at a participating school. However, a medical intern or resident who is also concurrently enrolled in a Ph.D. program may receive an in-school deferment based on his or her half-time or full-time enrollment in a Ph.D. program.

To obtain an in-school deferment, the student must be attending a school that either is eligible to participate in any Title IV Program or that is operated by an agency of the federal government (such as a service academy). An in-school deferment may be permissible for a student enrolled in a school that has lost eligibility due to its cohort default rate, or that has withdrawn from or never participated in the FFELP, if the school has received a determination from the Department that it qualifies as an eligible school.

▲ Schools may contact individual guarantors or reference Dear Colleague Letter 93-L-157 for more information on eligibility for in-school deferments. See section 1.6 for contact information.

A borrower who is not a national of the United States is not eligible for an in-school deferment based on attendance at a foreign school located outside the United States.

If a PLUS loan borrower meets the conditions required for an in-school, graduate fellowship, or rehabilitation training deferment, the parent borrower may defer all of his or her PLUS loans based on that condition.

If a dependent student for whom a parent borrower obtained one or more PLUS loans meets the conditions required for an in-school deferment, the parent borrower may defer all of his or her PLUS loans based on the status of that one student—provided the parent borrower's loan was made on or after July 1, 1987, and before July 1, 1993, or the parent borrower had an outstanding balance on a FFELP loan made before July 1, 1993, when the parent obtained a loan disbursed on or after July 1, 1993.

If the dependent student for whom a parent borrower obtained one or more PLUS loans meets the conditions required for a rehabilitation training deferment, the parent borrower may defer all of his or her PLUS loans based on the status of that one student—provided the parent borrower's loan was made before July 1, 1993, or the parent had an outstanding balance on a FFELP loan made before July 1, 1993, when the parent obtained a loan disbursed on or after July 1, 1993.

A PLUS loan borrower who is classified under the category *"New borrower" July 1, 1993* defined in subsection 10.1.A must be enrolled on at least a half-time basis to be eligible for in-school deferment. A deferment for such a "new borrower" who obtains a PLUS loan may no longer be granted on the basis of the dependent student's enrollment status.

## 10.5.B
## Deferment Documentation—In-School

If a borrower requests an in-school deferment form, the lender should forward to the borrower the following common deferment form:

> **SCH**
> In-School Deferment Request

If a PLUS borrower requests an in-school deferment based on the enrollment of a dependent student for whom the parent borrowed a PLUS loan, the lender should forward to the borrower the following common deferment form:

> **PLUS**
> PLUS Borrower with Dependent Student Deferment Request

The lender must determine the eligibility of a borrower—or, as applicable, the dependent student—for an in-school deferment based upon the receipt of any one of the following:

- A written or verbal request for deferment from the borrower and documentation of the borrower's eligibility for the deferment.
- A new loan application or certification record that documents the borrower's eligibility for a deferment.
- Student status information received by the lender indicating that the borrower is enrolled at least half time.
- Other information certified by the school indicating that the borrower is enrolled at least half time.

The deferment must be granted through the eligible student's anticipated graduation date for each eligible period of enrollment. If an in-school deferment is granted by the lender based upon a new loan application or certification record, the receipt of student status information, or other information certified by the school, and the borrower has not requested the deferment, the lender must notify the borrower of the in-school deferment. The notification must advise the borrower of the option to pay the interest that accrues on an unsubsidized loan, the option to cancel the deferment and continue paying on the loan, and the consequences of these options.
[HEA 428(b)(1)(Y); §682.210(c)(2) and (3)]

If a borrower verbally requests a deferment, the lender must retain a record of that request in the loan file or servicing history. The record should include the date of the request. Copies of written deferment requests, school certifications, and other documentation supporting the borrower's deferment eligibility should be retained in the borrower's file.
[§682.210(a)(6); §682.210(c)]

## 10.5.C
## Length of Deferment—In-School

An in-school deferment should end no later than the anticipated graduation date. If the information used to certify the borrower's deferment eligibility does not include an anticipated graduation date (AGD), the lender may process the deferment through the academic period end date certified by the school or the AGD of record, whichever is later. The deferment will remain in effect until the student ceases to be enrolled at least half time or full time for pre 7/1/87 borrowers, as applicable. In the event that the lender receives new information that indicates the borrower has been or will be continuously enrolled, a new deferment request is not required to extend the period of deferment. When new information is received, the lender may approve the deferment through the AGD most recently certified by the school or the new academic period end date, whichever is later.

In some cases, a student may temporarily cease attendance on at least a half-time basis due to a leave of absence without having the in-school deferment period interrupted. For a student to be considered "continuously enrolled," the school must include in the student's file *(a)* a request for a leave of absence and *(b)* information proving that the student's cumulative leaves of absence did not exceed 180 days in any 12-month period.
[§668.22(d)(1)(vii)]

A student enrolled in a program of correspondence study is eligible for an in-school deferment when the borrower is considered to be in the in-school period for half-time study (see section 9.2). Also, a borrower maintains continuous enrollment status if he or she temporarily ceases to be enrolled, but subsequently reenrolls, at least half time. The school must document that—allowing for any adjustment to the student's cost of attendance (COA) for the period of less than half-time enrollment—the student remains qualified for the entire amount of any loan received, including any disbursements made before the cessation of half-time enrollment. Otherwise, the school must have made appropriate refunds, and payments to comply with

the requirements for the return of Title IV funds (see section 4.7).
[§682.210(c)]

## 10.5.D Summer Bridge Extension

In some cases, a borrower may be eligible to extend the period of in-school deferment based on anticipated reenrollment for the fall term. If a student attends school and is deferred through the end of the spring academic period and is planning to reenroll for the academic period in the fall, the deferment may be extended through the summer months.

A PLUS loan borrower is eligible to extend an in-school deferment through the summer if the PLUS borrower intends to enroll on at least a half-time basis in the fall. If a PLUS loan borrower is eligible for deferment based upon a dependent student's status, the summer bridge extension may also be applied if any dependent student for whom a PLUS loan was obtained intends to enroll in the fall (see subsection 10.1.A).
[§682.210(b)(4) and (6); §682.210(s)(1)]

When the lender receives notice of a student's intent to reenroll, it may maintain the in-school deferment on the loan for up to 30 days following the date the borrower has provided as the beginning of the fall academic period. If the lender does not receive verification of reenrollment by the end of the extension, the lender must convert the loan to repayment on the day following the last date of certified enrollment and capitalize interest accrued during the extension period. A payment due date must be established that is no later than 60 days—plus the 30-day extension in the case of a Stafford or SLS loan, *if applicable*, as outlined in subsections 9.5.A and 9.5.C—after the end of the summer bridge extension.

A lender may accept the borrower's verbal statement of the student's intent to reenroll if that request is documented or may use a guarantor's form or its own form to document a borrower's request for a summer bridge extension. Guarantors recommend that the lender send the borrower a form and a letter explaining the extension approximately 45 to 60 days before the expiration date of an in-school deferment that was granted for the spring academic period.

If the lender does not receive a notice from the borrower regarding the student's intent to reenroll for the fall academic period, but subsequently receives documentation of the borrower's deferment eligibility for the fall period, the lender may retroactively process the summer bridge extension.

▲ Lenders may contact individual guarantors for more information on obtaining summer bridge extension forms. See section 1.6 for contact information.

## 10.6 Internship/Residency Deferment

An internship/residency deferment is intended to cover:

- Service in an internship program that is required of the borrower to receive professional recognition in order to begin professional practice or service.
- Service in a medical internship or residency training program that leads to a degree or certificate awarded by an institution of higher education, hospital, or a health care facility that offers postgraduate training.

## 10.6.A Eligibility Criteria—Internship/Residency

This deferment is available only if the borrower has an outstanding balance on a FFELP loan that was made before July 1, 1993, or the borrower had an outstanding balance on a FFELP loan made before July 1, 1993, when he or she obtained a loan disbursed on or after July 1, 1993. The deferment is also available to a PLUS borrower if that borrower has a PLUS loan first disbursed before August 15, 1983.

To qualify for this deferment, a borrower must request it and provide the lender with a statement from an authorized official of the organization with which the borrower is undertaking the internship or residency program certifying the following:

- That the internship or residency program is a supervised training program that requires the completion of at least a bachelor's degree before acceptance into the program.
- That the borrower has been accepted into the program.
- The anticipated dates on which the borrower will begin and complete the program, or begin and complete the minimum period of participation in the program that the state requires before an individual may be certified for professional practice or service, whichever is less.

For a medical internship or residency training program performed at a hospital, health care facility, or institution of higher education, the borrower must provide certification from an authorized official of the internship/residency

program. The certification must include a statement that completion of the program leads to a degree or certificate awarded by a hospital, health care facility, or institution of higher education that offers postgraduate training.

For a nonmedical internship program that is required of a borrower to begin professional practice of service, the borrower must provide certification from both the authorized program official and the appropriate state licensing agency. The certification must include a statement that completion of the program is required before the borrower can begin professional practice or service.

## 10.6.B Deferment Documentation—Internship/Residency

If a borrower requests an internship/residency training deferment, the lender should forward to the borrower the following common deferment form:

**EDU**
Education Related Deferment Request

## 10.6.C Length of Deferment—Internship/Residency

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. The deferment ends no later than 2 years after the date on which it began, or the date on which the borrower's internship or residency is certified to end or actually ends, whichever is earlier.
[§682.210(n)]

A lender is required to grant forbearance to a borrower who has already received the maximum 2-year deferment but who has not yet completed his or her internship or residency program (see subsection 10.22.B). The 2-year deferment limit does not include periods of in-school deferment that were previously granted (before enactment of the Omnibus Budget Reconciliation Act of 1989).

# 10.7 Military Deferment

A military deferment is intended to cover active duty status in the U.S. Armed Forces (Army, Navy, Air Force, Marine Corps, and the Coast Guard).

## 10.7.A Eligibility Criteria—Military

This deferment generally applies only to an active duty member of the U.S. Armed Forces who has an outstanding balance on a FFELP loan that was made before July 1, 1993, or who had an outstanding balance on a FFELP loan made before July 1, 1993, when he or she obtained a loan disbursed on or after July 1, 1993. The deferment is also available to a PLUS borrower if that borrower has a PLUS loan that was disbursed before August 15, 1983. Members of the National Guard or the Reserves who are serving in a full-time active duty status for a minimum of one year or in cases of a national emergency (not a 2-week active duty assignment for training status) may qualify for the military deferment. Such borrowers are considered to be actively serving in the military. For a Stafford borrower who is called or ordered to active duty and who has a loan in a grace period or has a loan in an in-school status that would subsequently enter a grace period, see subsection 9.3.C for information on military extension of the grace period.

In addition to requesting the deferment, a borrower must provide the lender with documentation establishing that he or she is serving a period of full-time active duty status in the Armed Forces of the United States. Documentation may include:

- A written statement from the borrower's commanding officer or personnel officer certifying the date on which the borrower's service began and the date on which it is expected to end.
- A copy of the borrower's official military orders and a copy of the borrower's active duty military identification card.

Several statutory and regulatory provisions were introduced in 1991 to provide additional benefits to borrowers who served on active duty in connection with Operations Desert Shield/Desert Storm. For additional information on these provisions, refer to Dear Colleague Letters GEN-91-11 and GEN-91-19 and the *Federal Register* dated September 16, 1991.

## 10.7.B
## Deferment Documentation—Military

If a borrower requests a military deferment, the lender should forward to the borrower the following common deferment form:

**PUB**
Public Service Deferment Request

## 10.7.C
## Length of Deferment—Military

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. The deferment ends no later than 3 years after the date on which it began, or the date on which the borrower's qualifying service is certified to end or actually ends, whichever is earlier. Borrowers may be granted a maximum of 3 years of deferment for any combination of service in the U.S. Armed Forces, U.S. Commissioned Corps of Public Health, and National Oceanic and Atmospheric Administration Corps (NOAA). [§682.210(i)]

For active duty status in connection with military mobilizations, the lender will be permitted to accept, during specific emergency periods, the borrower's request for the deferment and the supporting documentation from a close family member or an individual in a position to know the borrower's military status (such as the borrower's commanding officer). In the case of a deferment on behalf of a borrower serving in Operations Desert Shield/Desert Storm, the lender was permitted to grant the deferment retroactive to the date the borrower was mobilized—even if that resulted in backdating the deferment more than 6 months. Furthermore, if a borrower had used the entire 36-month military deferment eligibility before being mobilized, the borrower or a close family member had the option of requesting an emergency administrative forbearance.

## 10.8
## National Oceanic and Atmospheric Administration Corps Deferment

This deferment is intended to cover active duty service in the National Oceanic and Atmospheric Administration Corps (NOAA).

## 10.8.A
## Eligibility Criteria—NOAA

This deferment is available only if the borrower has an outstanding balance on a FFELP loan that was made before July 1, 1993, or the borrower had an outstanding balance on a FFELP loan made before July 1, 1993, when he or she obtained a loan disbursed on or after July 1, 1993.

To qualify for this deferment, a borrower must request it and provide the lender with a statement from an authorized official of the NOAA Corps certifying:

- That the borrower is on active duty status in the NOAA Corps.
- The date on which the borrower's service began.
- The date on which the borrower's service is expected to end.

## 10.8.B
## Deferment Documentation—NOAA

If a borrower requests a NOAA deferment, the lender should forward to the borrower the following common deferment form:

**PUB**
Public Service Deferment Request

## 10.8.C
## Length of Deferment—NOAA

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. The deferment ends no later than 3 years after the date on which it began, or the date on which the borrower's qualifying service is certified to end or actually ends, whichever is earlier. A borrower may be granted a maximum of 3 years of deferment for any combination of

service in the U.S. Armed Forces, U.S. Commissioned Corps of Public Health, and NOAA.
[§682.210(p)]

## 10.9
## Parental Leave Deferment

A parental leave deferment is intended to cover a borrower who is pregnant or caring for his or her newborn or newly adopted child.

### 10.9.A
### Eligibility Criteria—Parental Leave

This deferment is available only if the borrower has an outstanding balance on a FFELP loan that was made before July 1, 1993, or the borrower had an outstanding balance on a FFELP loan made before July 1, 1993, when he or she obtained a loan disbursed on or after July 1, 1993.

To qualify for this deferment, a borrower must request it and provide to the lender a statement certifying that:

- The borrower is pregnant or caring for his or her newborn child, or caring for a child immediately following his or her adoption of that child.
- The borrower will not be attending school during this period.
- The borrower will not be working full time (at least 30 hours of work per week that is expected to last at least 3 months) during this period.
- The borrower has been enrolled at least half time during the 6 months before the date on which the deferment should begin.

In addition to his or her own statements, the borrower must provide to the lender a statement from the doctor verifying the pregnancy, or a birth certificate or a statement from an adoption agency indicating the recent placement of a child in the borrower's care. In addition, the statement of the borrower's in-school enrollment status must be certified by an authorized official of a participating school.

Deferment eligibility is limited to the period during which the borrower is pregnant or the period immediately following the birth or adoption of a child.

Because the borrower must be enrolled at least half time at an eligible school at some time during the 6 months immediately preceding the period of the parental leave deferment, the lender, in granting the deferment, may waive all or a portion of the borrower's grace period if the waiver is authorized by the borrower in writing.

The common deferment form for this deferment provides up to a one-month grace period waiver.

### 10.9.B
### Deferment Documentation—Parental Leave

If a borrower requests a parental leave deferment, the lender should forward to the borrower the following common deferment form:

**PLWM**
Parental Leave/Working Mother Deferment Request

### 10.9.C
### Length of Deferment—Parental Leave

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. The deferment ends no later than 6 months after the date on which it began. This deferment may be granted to the same borrower in periods of no more than 6 months each time the borrower qualifies. This means that the borrower may receive the deferment for the birth or care of more than one child, in increments not to exceed the 6-month maximum per occurrence.
[§682.210(o)]

## 10.10
## Peace Corps Deferment

A Peace Corps deferment is intended to cover volunteer service under the Peace Corps Act.

### 10.10.A
### Eligibility Criteria—Peace Corps

This deferment is available only if the borrower has an outstanding balance on a FFELP loan that was made before July 1, 1993, or the borrower had an outstanding balance on a FFELP loan made before July 1, 1993, when he or she obtained a loan disbursed on or after July 1, 1993. The deferment is also available to a PLUS borrower if that borrower has a PLUS loan first disbursed before August 15, 1983.

To qualify for this deferment, a borrower must request it and provide the lender with a statement from an official of the Peace Corps program certifying:

- That the borrower has agreed to serve as a volunteer on a full-time basis for at least one year.
- The date on which the borrower's service began.
- The date on which the borrower's service is expected to end.

## 10.10.B Deferment Documentation—Peace Corps

If a borrower requests a Peace Corps deferment, the lender should forward to the borrower the following common deferment form:

**PUB**
Public Service Deferment Request

## 10.10.C Length of Deferment—Peace Corps

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. The deferment ends no later than 3 years after the date on which it began, or the date on which the borrower's commitment is certified to end or actually ends, whichever is earlier.
[§682.210(k)]

## 10.11 Public Health Service Deferment

A public health service deferment is intended to cover service as a full-time officer in the Commissioned Corps of Public Health of the United States Public Health Service (USPHS).

## 10.11.A Eligibility Criteria—Public Health Service

This deferment is available only if the borrower has an outstanding balance on a FFELP loan that was made before July 1, 1993, or the borrower had an outstanding balance on a FFELP loan made before July 1, 1993, when he or she obtained a loan disbursed on or after July 1, 1993. The deferment is also available to a PLUS borrower if that borrower has a PLUS loan first disbursed before August 15, 1983.

To qualify for this deferment, the borrower must request it and provide the lender with a statement from an authorized official of the USPHS certifying:

- That the borrower is serving as a full-time officer in the Commissioned Corps of Public Health.
- The date on which the borrower's service began.
- The date on which the borrower's service is expected to end.

## 10.11.B Deferment Documentation—Public Health Service

If a borrower requests a public health service deferment, the lender should forward to the borrower the following common deferment form:

**PUB**
Public Service Deferment Request

## 10.11.C Length of Deferment—Public Health Service

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. The deferment ends no later than 3 years after the date on which it began, or the date on which the borrower's qualifying service is certified to end or actually ends, whichever is earlier. Borrowers may be granted a maximum 3 years of deferment for any combination of service in the U.S. Armed Forces, U.S. Commissioned Corps of Public Health, and National Oceanic and Atmospheric Administration Corps (NOAA).
[§682.210(j)]

## 10.12 Rehabilitation Training Program Deferment

A rehabilitation training program deferment covers a qualified individual's participation in a rehabilitation training program.

## 10.12.A Eligibility Criteria—Rehabilitation Training Program

To qualify for this deferment, a borrower must request it and provide the lender with written certification from the rehabilitation agency that:

- The borrower—or the dependent student in the case of a PLUS loan, where applicable—is either receiving or scheduled to receive rehabilitation training services from the agency.
- The rehabilitation training program is licensed, approved, certified, or otherwise recognized as providing rehabilitation training to qualified individuals by a state agency responsible for vocational rehabilitation, drug abuse treatment, mental health services, or alcohol abuse treatment programs, or by the Department of Veterans Affairs.
- The rehabilitation training program will provide the borrower or dependent student with rehabilitation services under a written plan that:
  - Is individualized to meet the borrower's or dependent student's needs.
  - Specifies the date on which the services to the borrower or dependent student are expected to end.
  - Is structured in a way that requires a substantial commitment by the borrower or dependent student to his or her rehabilitation. A substantial commitment is defined as a commitment demanding time and effort that would normally prevent an individual from engaging in full-time employment, either because of the number of hours that must be devoted to rehabilitation or because of the nature of the rehabilitation. For these purposes, full-time employment is defined as at least 30 hours of work per week that is expected to last at least 3 months.

## 10.12.B Deferment Documentation—Rehabilitation Training Program

If a borrower requests a rehabilitation training program deferment, the lender should forward to the borrower the following common deferment form:

**EDU**
Education Related Deferment Request

If a PLUS borrower requests a rehabilitation training deferment based on the participation in a qualified training program by the dependent student for whom the parent borrowed a PLUS loan, the lender should forward to the borrower the following common deferment form:

**PLUS**
PLUS Borrower with Dependent Student Deferment Request

## 10.12.C Length of Deferment—Rehabilitation Training Program

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. The deferment ends when the borrower completes the program or withdraws, whichever is earlier. [§682.210(e)]

## 10.13 Tax-Exempt Organization Volunteer Deferment

A tax-exempt organization volunteer deferment is intended to cover full-time paid volunteer service with a tax-exempt organization that the U.S. Department of Education has determined to be comparable to service as a Peace Corps or ACTION volunteer.

## 10.13.A Eligibility Criteria—Tax-Exempt Organization Volunteer

This deferment is available only if the borrower has an outstanding balance on a FFELP loan that was made before July 1, 1993, or the borrower had an outstanding balance on a FFELP loan made before July 1, 1993, when he or she obtained a loan disbursed on or after July 1, 1993. The

deferment is also available to a PLUS borrower if that borrower has a PLUS loan first disbursed before August 15, 1983.

To qualify for this deferment, a borrower must request it and provide the lender with a statement from an official of the volunteer program certifying:

- That the borrower has agreed to serve on a full-time basis for at least one year.
- That the borrower serves as a volunteer in an organization that is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1986.
- That the borrower provides service to low-income persons and their communities to assist them in eliminating poverty and poverty-related human, social, and environmental conditions.
- That the borrower's compensation—including a subsistence allowance, necessary travel expenses, and stipends—does not exceed the federal minimum wage, except that the tax-exempt organization may provide health, retirement, and other fringe benefits to the volunteer that are substantially equivalent to the benefits offered to other employees of the organization.
- That the borrower, as part of his or her duties, does not give religious instruction, conduct worship services, engage in religious proselytizing, or engage in fund-raising to support religious activities.
- The date on which the borrower's service began.
- The date on which the borrower's service is expected to end.

## 10.13.B Deferment Documentation—Tax-Exempt Organization Volunteer

If a borrower requests a tax-exempt organization volunteer deferment, the lender should forward to the borrower the following common deferment form:

**PUB**
Public Service Deferment Request

## 10.13.C Length of Deferment—Tax-Exempt Organization Volunteer

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. The deferment ends no later than 3 years after the date on which it began, or the date on which the borrower's commitment is certified to end or actually ends, whichever is earlier.
[§682.210(m)]

## 10.14 Teacher Shortage Area or Targeted Teacher Deferment

A teacher shortage area deferment (also called a targeted teacher deferment) is intended to cover full-time teaching in a public or nonprofit private elementary or secondary school in a teacher shortage area defined by the Department, as recommended by the chief state school officer of the state.

## 10.14.A Eligibility Criteria—Teacher Shortage Area

This deferment is available only if the borrower has an outstanding balance on a FFELP loan that was made on or after July 1, 1987, and before July 1, 1993, or who had an outstanding balance on a loan obtained on or after July 1, 1987, and before July 1, 1993, when he or she obtained a loan on or after July 1, 1993.

A teacher shortage area is defined as one of the following:

- A geographic region of the state in which there is a shortage of elementary or secondary school teachers.
- A specific grade level—or an academic, instructional, subject matter, or discipline classification—in which there is a statewide shortage of elementary or secondary school teachers.

If the borrower continues to teach in the same area as that in which the borrower was teaching when the deferment was originally granted, the borrower may request and receive subsequent deferment extensions—even if the area does not continue to be designated a teacher shortage area.

To qualify for this deferment, a borrower must request it and provide a separate statement for each school year of service that includes:

- A statement from the chief administrative officer of the school at which the borrower is teaching, certifying that the borrower is employed as a full-time teacher.

- A statement certifying that the borrower is teaching in a designated teacher shortage area. This statement must be obtained from either the school's chief administrative officer or the chief state school officer of the state in which the borrower is teaching. If the chief state school officer provides (and has notified the Department by way of a one-time written assurance that he or she provides) an annual listing of the state's designated teacher shortage areas to the chief administrative officers of all the schools affected and the guarantor for that state, the borrower may obtain the certification from the school's chief administrative officer.

To receive a subsequent deferment, a borrower must provide a statement from the chief administrative officer of the school at which the borrower is teaching, certifying that the borrower continues to be employed as a full-time teacher in the same area for which the teacher shortage deferment was obtained for the previous year(s).

## 10.14.B Deferment Documentation—Teacher Shortage Area

If a borrower requests a teacher shortage area deferment, the lender should forward to the borrower the following common deferment form:

**EDU**
Education Related Deferment Request

## 10.14.C Length of Deferment—Teacher Shortage Area

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. The deferment ends no later than one year after the date on which it began, or the date on which the borrower's qualifying service is certified to end, whichever is earlier. Each deferment may be granted only in 12-month increments, extending from July 1 of a calendar year through June 30 of the following year. The deferment ends on the earlier of the June 30 close of a school year or the date the borrower terminates full-time teaching status in the targeted area. The borrower is permitted up to 3 years of deferment while serving in a teacher shortage area. [§682.210(q)]

## 10.15 Temporary Total Disability Deferment

A temporary total disability deferment covers a period during which a borrower is temporarily totally disabled or unable to secure or continue employment because the borrower is caring for a dependent or spouse who is temporarily totally disabled.

## 10.15.A Eligibility Criteria—Temporary Total Disability

This deferment is available only if the borrower has an outstanding balance on a FFELP loan that was made before July 1, 1993, or the borrower had an outstanding balance on a FFELP loan made before July 1, 1993, when he or she obtained a loan disbursed on or after July 1, 1993.

A borrower is considered temporarily totally disabled if he or she has been unable to work and earn money or attend school during a period of at least 60 consecutive days because of time needed to recover from an injury or illness. A borrower's dependent or spouse is considered temporarily totally disabled if, by reason of injury or illness, the dependent or spouse requires continuous nursing or similar services during a period of at least 90 consecutive days.

A borrower does not qualify for a disability deferment due to pregnancy unless, as a result of complications that accompany the pregnancy, the borrower, dependent, or spouse is considered temporarily totally disabled by a physician.

To obtain this deferment, a borrower must request it and provide the lender with a statement from a physician—who must be a doctor of medicine or osteopathy and legally authorized to practice—certifying that the borrower, dependent, or spouse is temporarily totally disabled.

For a borrower to be eligible for the deferment based on a dependent's or spouse's disability, the physician also must certify that the borrower's dependent or spouse requires continuous nursing or similar services during a period of at least 90 consecutive days. The borrower also must provide a statement certifying that he or she is unable to secure full-

time employment (at least 30 hours of work per week that is expected to last at least 3 months) because the borrower is providing continuous nursing or similar services to the dependent or spouse.

If a borrower applies for a disability deferment based on a condition that existed before applying for the loan, the borrower is not eligible for the deferment unless the borrower obtains documentation from a physician certifying that the borrower's condition has substantially deteriorated since the borrower applied for the loan, so as to render the borrower temporarily totally disabled after applying for the loan. This requirement is applicable to a Consolidation loan if the condition existed before the disbursement of any of the original loans that were consolidated or before the date the borrower applied for the Consolidation loan.

## 10.15.B Deferment Documentation—Temporary Total Disability

If a borrower requests a temporary total disability deferment, the lender should forward to the borrower the following common deferment form:

**TDIS**
Temporary Total Disability Deferment Request

## 10.15.C Length of Deferment—Temporary Total Disability

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. The deferment must end no later than 6 months after the date on which the doctor certified the form, or the date on which the doctor has certified that the condition will end, whichever is earlier. If the doctor does not specify an anticipated recovery date, or indicates *unknown* or *indefinite*, the deferment may be processed for 6 months from the date on which the doctor certified the form.

A borrower may receive a combined total of 3 years of disability deferment for both the borrower's own condition and the conditions of the borrower's dependents or spouse. [§682.210(f) and (g)]

## 10.16 Unemployment Deferment

The unemployment deferment is available to individuals who are conscientiously seeking, but unable to find, full-time employment in the United States. For purposes of this deferment, the United States includes borrowers residing in and seeking employment in any state of the Union, the District of Columbia, the Commonwealth of Puerto Rico, American Samoa, Guam, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, and the Freely Associated States (the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau). Also, a U.S. military base or U.S. embassy compound in a foreign country is considered to be part of the United States for purposes of this deferment.

## 10.16.A Eligibility Criteria—Unemployment

For these purposes, full-time employment is defined as at least 30 hours of work per week that is expected to last at least 3 months. A borrower who is in school or working less than 30 hours per week may be looking for full-time employment and, therefore, may be eligible for an unemployment deferment. A borrower is eligible for an unemployment deferment regardless of whether he or she has been previously employed and regardless of the circumstances under which any prior employment ended. However, a borrower is not eligible for an unemployment deferment if he or she refuses to consider positions, salaries, or responsibility levels for which he or she feels overly qualified due to education or experience. A borrower who has obtained an unemployment deferment is expected to promptly notify the lender when full-time employment is obtained.

To obtain an unemployment deferment or an extension of an existing unemployment deferment, a borrower must request the deferment or extension, and document his or her eligibility in one of the following ways:

- Provide the lender with evidence of his or her eligibility for unemployment benefits if he or she is eligible for such benefits. In this case, a borrower need not provide the lender with a common deferment form or additional information or documentation.

- Provide the lender with written certification—or an equivalent approved by the Department—that the borrower has:
  - Registered with a public or private employment agency if one is available within a 50-mile radius of the borrower's current address.
  - Made at least six diligent attempts in the preceding 6-month period to obtain full-time employment. If the unemployment deferment request is for an initial period of deferment, the borrower is not required to certify attempts to obtain employment.

## 10.16.B Deferment Documentation—Unemployment

If a borrower requests an unemployment deferment and the borrower is eligible for unemployment benefits, the lender should request that the borrower submit evidence of his or her eligibility for unemployment benefits. If a borrower requests an unemployment deferment and is not eligible for unemployment benefits, the lender should forward to the borrower the following common deferment form:

**UNEM**
Unemployment Deferment Request

## 10.16.C Length of Deferment—Unemployment

The initial period of unemployment deferment that is based on the borrower's self-certification begins on the later of the date the condition entitling the borrower to the deferment first existed, as determined by the lender, or 6 months before the date the lender receives the request and required documentation. An initial period of unemployment deferment ends on the date the borrower finds employment or up to 6 months after the date the lender receives the borrower's unemployment deferment request. An unemployment deferment based on evidence of the borrower's eligibility for unemployment benefits and any extension of an existing unemployment deferment is not subject to the 6-month backdating restriction. An unemployment deferment extension may not be granted for more than 6 months following the date the borrower provides evidence or certification of deferment eligibility.

If the borrower is eligible to receive a 6-month post-deferment grace period on his or her loan (see subsection 10.1.H), only one such grace period may be received following one unemployment deferment period—regardless of how many unemployment deferments the borrower is granted. This grace period should be provided only on the initial unemployment deferment period.

An unemployment deferment period ends as soon as one of the following events occurs:

- The borrower becomes gainfully employed on a full-time basis.
- The unemployment deferment period reaches the 2-year or 3-year maximum, as applicable.
- The 6-month period of deferment expires before the borrower submits an extension request. [§682.210(h); Appendix A of DCL 96-L-186/96-G-287]

## 10.17 Working Mother Deferment

This deferment is intended to cover mothers of preschool-age children when the mothers are entering or reentering the work force. A preschool-age child is defined as one who is not yet enrolled in first grade or a higher grade in elementary school.

## 10.17.A Eligibility Criteria—Working Mother

This deferment is available only if the borrower has an outstanding balance on a FFELP loan that was made before July 1, 1993, or the borrower had an outstanding balance on a FFELP loan made before July 1, 1993, when he or she obtained a loan disbursed on or after July 1, 1993.

To qualify for this deferment, a borrower must request it and provide the lender with:

- A statement that she is the mother of a preschool-age child; that she entered or is reentering the work force no more than one year before the beginning date of the period for which the deferment is being sought; and that she is currently employed full time (at least 30 hours of work per week that is expected to last at least 3 months) in a position for which she receives wages of no more than $1.00 per hour more than the minimum wage.
- Documentation of the child's age (such as a birth or baptismal certificate).

- Documentation of wages (such as a pay stub).

## 10.17.B Deferment Documentation—Working Mother

If a borrower requests a working mother deferment, the lender should forward to the borrower the following common deferment form:

**PLWM**
Parental Leave/Working Mother Deferment Request

## 10.17.C Length of Deferment—Working Mother

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. The deferment ends no later than 12 months after the date on which it began, or the date on which the borrower no longer qualifies for the deferment (for example, when a borrower achieves a salary that would exceed the hourly minimum wage plus $1.00), whichever is earlier.
[§682.210(r)]

## 10.18 Forbearance

Forbearance is a tool lenders can use to assist borrowers in meeting their loan repayment obligations. By granting forbearance, a lender permits a temporary cessation of payments, allows an extension of time for making payments, or temporarily accepts smaller payments than were previously scheduled. A lender is encouraged to grant a forbearance to prevent the borrower or endorser from defaulting on the repayment obligation or to permit the borrower or endorser to resume honoring the loan obligation after default. The lender may grant forbearance to borrowers or endorsers only if the lender reasonably believes, and documents in the borrower's file, that the borrower or endorser intends to repay the loans, but due to poor health or other acceptable reasons, is currently unable to make payments. The lender also may grant forbearance if the principal payments have been deferred, but the Department does not pay interest benefits on the borrower's behalf.

The terms of a forbearance agreement between a lender and borrower or endorser may require the borrower or endorser to make reduced payments during the forbearance. For more information on reduced-payment forbearance, see subsection 10.20.A.

If two individuals are jointly liable for repayment of a PLUS loan or Consolidation loan, a lender may grant forbearance on repayment of the loan only if the ability of each individual to make scheduled payments has been impaired based on the same or differing conditions.

If a lender denies a borrower's request for forbearance, the lender must document the reason for denial in the borrower's file or the servicing history of the loan (see subsection 3.4.A).

A lender may not charge an administrative or other fee in connection with granting forbearance on a loan. A lender also is prohibited from reporting to credit bureaus any adverse information regarding the repayment status of a loan solely as a result of granting forbearance to the borrower.
[§682.211]

A lender should use forbearance as a tool to bring a delinquent or defaulted loan current. The lender should not grant any discretionary forbearance that will result in the borrower remaining delinquent. However, this restriction does not apply if, for example, the loan exits the forbearance with a delinquent status due to a nonsufficient funds (NSF) payment that was made before the forbearance was granted. For more information on granting a forbearance on a delinquent or defaulted loan, see subsections 10.18.F and 10.18.G.

## 10.18.A Forbearance Types

There are four types of forbearance available to borrowers and, in some cases, endorsers:

- Administrative forbearance (see section 10.19).
- Discretionary forbearance (see section 10.20).
- Mandatory administrative forbearance (see section 10.21).
- Mandatory forbearance (see section 10.22).

Figure 10-2, the Forbearance Eligibility Chart, may help schools and lenders identify general information about discretionary, administrative, mandatory, and mandatory administrative forbearances, including situations in which these forbearance types may be used by a borrower and an endorser, if applicable. The chart also provides information about the length of the forbearance and general information about required documentation. For detailed information about each forbearance, see the applicable section.

## 10.18.B
## Documentation Required for Authorized Forbearance

In cases where a signed forbearance agreement is required, a lender may use any form or format that is acceptable to the guarantor and the lender must retain a copy of the agreement. For each forbearance period, regardless of whether a signed agreement is required, the lender must document in the borrower's file or the loan's servicing history the forbearance beginning and ending dates and the reason for granting forbearance.
[§682.414(a)(4)(ii)(G)]

## 10.18.C
## Forbearance Length

With the exception of administrative and mandatory forbearances that are not subject to a maximum time frame or are subject to other regulatory time frames (see sections 10.19, 10.21, and 10.22), a lender may grant a single forbearance for up to one year at a time if both the borrower or endorser and the lender agree. This one year includes any past and future forbearance months. For example, a forbearance that is granted for 3 months retroactively may extend only 9 months into the future.

Occasionally, a borrower's temporary economic hardship will continue to prevent the borrower or endorser from resuming regularly scheduled loan payments after the first forbearance expires. If additional forbearance is warranted, the lender must reach a new agreement with the borrower either verbally or in writing.
[§682.211(c)]

Federal regulations require that a single forbearance be granted for no longer than a 12-month interval. The Department has indicated that it does not interpret this provision of the regulations to prohibit a lender, in applying the 12-month maximum forbearance period, from granting forbearance for a retroactive as well as a prospective period as long as the period of each forbearance agreement does not exceed 12 months. As it relates to granting a forbearance to a borrower for a prospective period, a lender is expected to clarify the end date of the period requested by the borrower because the forbearance period must not extend beyond the date for which the borrower requests and otherwise qualifies for this relief. However, when a delinquent borrower submits a forbearance request, but does not properly identify the period of forbearance or identifies a period of forbearance that does not correspond to the delinquency status of the borrower's loan, the lender may grant the forbearance retroactively to resolve the borrower's delinquency, provided the duration of each forbearance agreement does not exceed the maximum 12-month limit. The lender is expected to notify the borrower of the actual forbearance period granted. If the lender has lost insurance on the loan, the lender must perform a cure to reinstate the guarantee on the loan. See section 13.5 for more information about curing a loan to reinstate the guarantee.

## 10.18.D
## Payment of Interest during Forbearance

In cases when a forbearance agreement is required, the borrower and the lender must agree to the way in which the interest accruing during the forbearance will be paid. If interest during a period of deferment is forborne, the lender must notify the borrower at the time of the deferment that interest payments are to be forborne.

If payments of interest are forborne, they may be capitalized. For more information on capitalizing interest, see section 9.10.
[§682.202(b)]

## 10.18.E
## Reporting Forbearances

Under the Department's National Student Loan Data System (NSLDS) reporting requirements, a lender must report forbearances to the guarantor, including the date each forbearance begins. When a forbearance ends, the lender must report the new loan status and the effective date. For more information on lender reporting, see section 3.5.

## 10.18.F
## Forbearance of Delinquent Loans

A lender must not administratively forbear a delinquent borrower in cases where the borrower is delinquent before a mandatory forbearance or certain mandatory administrative forbearances. A lender should resolve any delinquencies that exist before these types of forbearance by working with the borrower to grant a discretionary forbearance. This requirement to resolve existing delinquency using a discretionary forbearance does not apply to mandatory administrative forbearances granted for military mobilization, local or national emergencies, or a designated disaster area (see subsection 10.19.K for more information).

## 10.18.G
## Forbearance of Defaulted Loans

A lender may grant forbearance to a borrower or endorser to permit the resumption of payments following the date of default only if the forbearance is granted prior to the lender's receipt of the claim payment. To resolve the delinquency, the terms of a discretionary forbearance agreement made after default must include the borrower's or endorser's signature and a new signed agreement to repay the debt. A new signed agreement to repay the debt is not required if an administrative forbearance is applied to resolve a delinquency remaining after a deferment request that resolves a borrower's default has been granted.
[§682.211(d); §682.211(f)(9)]

## 10.18.H
## Borrower Contact during Forbearance

If the lender and borrower or endorser agree verbally to a discretionary forbearance, the lender must send, within 30 days of that agreement, a notice to the borrower or endorser confirming the terms of the forbearance.

Whenever granting forbearance involves postponing all payments, the lender must contact the borrower or endorser at least once every 6 months during the forbearance period. The lender must inform the borrower or endorser of all the following information in each such contact:

- The obligation to repay the loan.
- The outstanding balance of principal and interest on the loan.
- That interest will accrue on the loan for the entire forbearance period.
- That the borrower or endorser may opt to discontinue the forbearance at any time.

This notification requirement does not apply to the postponement of interest payments during a deferment period, a period of forbearance for an internship or residency, or a period of mandatory administrative forbearance. (See subsection 10.22.B for information regarding required notification for internship and residency forbearance. See section 10.21 for information regarding required notification for mandatory administrative forbearance.)
[§682.211(e)]

## 10.18.I
## Establishing Repayment after Forbearance

A borrower's first payment due date after an authorized forbearance generally must be no later than 60 days after the date that the forbearance expires. For a Stafford loan, federal regulations permit the lender to extend the first due date an additional 30 days beyond the standard 60-day limit, if the extension is necessary to permit the lender to comply with requirements that the repayment disclosure be sent to the borrower no less than 30 days before the first payment on the loan is due.

A borrower must be notified of any interest capitalized due to the forbearance. The notice should include the new principal balance and any other repayment term changes (such as a new monthly payment amount) resulting from the interest being capitalized. The lender may develop its own format for disclosing such information or may use a repayment schedule and disclosure form provided by a guarantor. For more information on disclosure of repayment terms, see section 9.7.
[§682.205(c); §682.209(a)(3)(ii)(B)]

## Forbearance Eligibility Chart — Figure 10-2

| TYPE | LENGTH |
|---|---|
| **Discretionary** | |
| Financial difficulties due to personal problems when the borrower is unable to make regularly scheduled payments[1] | The period established in the terms of the forbearance agreement (not to exceed 12-month increments); no maximum |
| Reduced-Payment Forbearance[1] | |
| **Mandatory** | |
| Medical or Dental Internship/Residency[2, 3] | 12-month increments (or a lesser period equal to actual period during which the borrower is eligible); no maximum |
| Department of Defense Student Loan Repayment Programs[3] | |
| National Service[2, 3] | |
| ~~Loan Forgiveness for~~ Child Care Providers Loan Forgiveness[2, 9]— *Note: Contingent upon funding by Congress.* | ~~*Note: Procedures for this forbearance type are currently being discussed by the industry and the Department.*~~Period while borrower maintains forgiveness eligibility. 12-month increments* |
| Debt Exceeds Monthly Income[4, 5] | 12-month increments; 3 years maximum |
| Teacher Loan Forgiveness[2, 3] | Period while borrower maintains forgiveness eligibility. 12-month increments; 5 years maximum |
| **Mandatory Administrative** | |
| Local or National Emergency[7] | Period specified by the Department or guarantor plus 30 days following the period |
| Military Mobilization[8] | |
| Designated Disaster Area[7] | |
| Repayment Accommodation | 3-year maximum for variable interest rate; 5-year maximum for income-sensitive repayment |
| Death | Date lender receives reliable notification of death to date lender receives death certificate or other acceptable documentation, not to exceed 60 days |
| Teacher Loan Forgiveness[2, 6] | The period while the lender is awaiting a completed loan forgiveness application, not to exceed 60 days |
| | Date lender receives a completed loan forgiveness application to date lender receives either a denial or the loan forgiveness amount from the guarantor |
| **Administrative** | |
| Borrower Ineligible for Deferment[6] | Beginning date to ending date of the ineligible deferment |
| Delinquency before a Deferment or Certain Forbearances[6] | First date of overdue payment to the day before the beginning date of deferment or other forbearance type |
| Late Notification of Out-of-School Dates[6] | Date borrower should have entered repayment to date first or next payment was established |
| Bankruptcy Filing[6] | The earlier of the first date of overdue payment or receipt of reliable information that the borrower has filed bankruptcy to date of discharge determination or repurchase |
| Total and Permanent Disability[6] | Date lender receives reliable information to date lender receives acceptable documentation, not to exceed 60 days |
| | Date lender receives physician's written request for additional time to date lender receives acceptable documentation, not to exceed 60 days |
| Repurchase of a Non-Bankruptcy Claim[6] | The period that the loan was held by the guarantor due to a claim purchase |
| Death | Date after mandatory administrative forbearance due to reliable notification of death ends to date lender receives death certificate or other acceptable documentation, not to exceed 60 days |
| Closed School | Period of unofficial closure notice as specified by guarantor |
| Closed School or False Certification[6] | 60 days from date application sent to borrower if application is not received by lender, and from date guarantor receives documentation to date of determination |
| Delinquency after Deferment or Mandatory Forbearance[6] | Deferment or mandatory forbearance end date to establishment of next payment due date |
| Documentation Collection and Processing[6] | Date borrower requests deferment, forbearance, change in repayment plan, or loan consolidation to date supporting documentation is processed by lender, not to exceed 60 days |
| Unpaid Refund Discharge | 60 days from date application sent to borrower if application is not received by lender, and from date guarantor receives documentation to date of determination |
| | The period during guarantor review and ending on the date lender receives the guarantor's determination for a borrower who requests a review of a denial determination |
| Unpaid Refund[6] | End date of initial 60-day mandatory administrative forbearance to receipt of completed discharge request, and during period of determination of discharge eligibility |
| New Out-of-School Dates after Conversion[6] | Original repayment start date to adjusted start date |
| Loan Sale or Transfer[6] | First date of delinquency to date loan is sold or transferred, if the loan is less than 60 days delinquent |
| Ineligible Summer Bridge Extension[6] | Day after expiration of borrower's last in-school deferment to the 30th day after fall classes begin |
| Cure[6] | Date of earliest unexcused violation to date lender receives a full payment or new signed repayment agreement |
| Natural Disasters, Local or National Emergency, Military Mobilization[6] | From date borrower affected, not to exceed 3 months for each occurrence |
| Repayment Alignment-SLS/Stafford[4] | First payment due date to last day of the longest applicable Stafford loan grace period |

Note: For detailed information about each forbearance situation, refer to the applicable subsection.

1 Lender must document the borrower's request, the reason for the forbearance, and the terms of the forbearance agreement.

2 For borrowers only.

3 A request, supporting documentation from the authorized official(s) indicating the beginning and ending dates, and written agreement are required.

4 A request is required.

5 A request and supporting documentation of monthly income and monthly payments on Title IV education loan obligations, and written agreement are required.

6 Lender must notify the borrower (or endorser, if applicable) and document the beginning and ending dates and reason for the forbearance in borrower history record.

7 Notice from the Department or guarantor is required.

8 Documentation showing borrower is subject to a military mobilization is required.

9 A request and a completed FFELP Child Care Provider Loan Forgiveness Forbearance Form are required.*

* Policy 700 (Batch 106), approved September 18, 2003

## 10.19
## Administrative Forbearance

A lender may grant an administrative forbearance, upon notice to the borrower or endorser, for payments of principal and interest that are overdue or that would be due in the following circumstances:

### 10.19.A
### Bankruptcy Filing

A lender is encouraged to grant an administrative forbearance for any period of delinquency before the borrower's filing of the bankruptcy petition. The lender also may grant an administrative forbearance during any period necessary for the Department or the guarantor to determine the borrower's eligibility for discharge due to the borrower's or endorser's bankruptcy.
[§682.211(f)(4) and (7); §682.402(f)(5)]

If the lender does not file the claim with the guarantor, the lender must suspend all collection activities on the loan and treat it as though it were in forbearance from the date the bankruptcy petition was filed through the date the lender receives the discharge notice confirming that the bankruptcy action has concluded and that the loan was not discharged. For more information on bankruptcy filings, see chapter 12. For more information on the suspension of collection during bankruptcy, see subsection 11.3.A.

If the lender files a bankruptcy claim with the guarantor, the lender does not need to administratively forbear the loan unless the guarantor requires the lender to repurchase the loan. In cases where the loan is repurchased, the lender may administratively forbear the loan from the date the bankruptcy petition was filed through the date the lender receives the claim package back from the guarantor.

### 10.19.B
### Borrower Ineligible for Deferment

If the lender properly grants a deferment to the borrower and later learns the borrower did not qualify for the deferment, the lender is permitted to forbear the loan for any payments of interest and principal that are overdue or that would be overdue.
[§682.211(f)(1)]

If the lender has extended an in-school deferment based on the student's intent to reenroll during the fall academic period, but the student fails to reenroll (and fails to establish deferment eligibility within 30 days of the date fall classes began), the lender should treat the loan as though it were in forbearance during the extension period. The forbearance begins on the day following the expiration of the borrower's last in-school deferment and ends on the 30th day after the start of fall classes. For more information on summer bridge deferment extensions, see subsection 10.5.D.

### 10.19.C
### Closed School or False Certification

The lender may grant the borrower a forbearance for periods needed by the Department or the guarantor to determine the borrower's eligibility for discharge of the loan because of attendance at a school that has closed or the false certification of loan eligibility (see subsections 12.8.B and 12.8.D).
[§682.211(f)(7); §682.402(d) and (e)]

### 10.19.D
### Cures

The lender may grant an administrative forbearance from the date of the earliest unexcused violation to the date the lender receives a full payment or new repayment agreement that is signed by the borrower to reinstate the guarantee on the loan.

### 10.19.E
### Death

The lender, after receiving reliable but unofficial notification that the borrower or, in the case of a PLUS loan, the borrower or the dependent student has died, must suspend collection activities for a period of up to 60 days, until the lender receives documentation of the death. If the lender needs time in addition to the initial 60-day mandatory administrative forbearance period to obtain documentation of the death of the borrower or the dependent student, the lender may grant an administrative forbearance for up to an additional 60 days, for a total suspension of collection activities of up to 120 days. This forbearance does not require a written request but the lender is required to notify the borrower or endorser that such a forbearance was granted.

See subsection 10.21.A for mandatory administrative forbearance requirements regarding death discharges. See subsection 12.8.C for information on claim filing procedures for loans that are eligible for discharge due to a borrower's or, in the case of the PLUS loan, a borrower's or dependent student's death.
[§682.211(f)(6); §682.402(b)(3)]

## 10.19.F
## Delinquency before a Deferment or Certain Forbearances

A lender may process an administrative forbearance to resolve an outstanding delinquency that precedes any of the events listed below. The forbearance may be granted from the date on which the borrower's delinquency began and may be extended through the day before the first date on which the borrower is eligible for:

- A deferment.
- An administrative forbearance granted for a natural disaster.
- A mandatory administrative forbearance granted for military mobilization, local or national emergency, or a designated disaster area.
  [§682.211(f)(2)]

## 10.19.G
## Delinquency after a Deferment or Mandatory Forbearance

A lender may grant an administrative forbearance for a period of delinquency that may remain after a borrower ends a period of deferment or mandatory forbearance. The administrative forbearance may be applied to resolve any delinquency that exists on the date the deferment or mandatory forbearance ends, regardless of when the delinquency originally occurred, and may be extended until the date the borrower's next payment is due. For example, if the lender properly grants a borrower's request for a deferment or mandatory forbearance where the end date is in the past or if the borrower will still have a period of delinquency at the conclusion of a deferment or mandatory forbearance, a lender may process an administrative forbearance to resolve the outstanding delinquency. The lender may apply the administrative forbearance concurrently with the application of the deferment or mandatory forbearance and need not wait until the deferment or mandatory forbearance ends before applying the administrative forbearance.
[§682.211(f)(9)]

## 10.19.H
## Documentation Collection and Processing

The lender may grant a forbearance for a period not to exceed 60 days if the lender determines it is warranted in order to collect and process supporting documentation following a borrower's request for a deferment, forbearance, change in repayment plan, or loan consolidation. A new administrative forbearance period for each occurrence may be granted by the lender. The lender must document the reasons for granting each forbearance in the borrower's loan history.
[§682.211(f)(10)]

The lender must not capitalize interest accrued during this period of administrative forbearance unless it receives documentation or information that results in the granting of a deferment or other forbearance type that would be concurrent with this period in which case capitalization is permitted.
[HEA 428(c)(3)(D); HEA 428H(e)(7)]

## 10.19.I
## Late Notification of Out-of-School Dates

If the lender receives information that the borrower's loan has entered or reentered repayment, and the information is received after the date on which the repayment period began, the lender must treat the loan as though it were in forbearance. The forbearance extends from the first date of the repayment period through the date on which the first or next payment on the loan is scheduled to be due.
[§682.211(f)(3)]

## 10.19.J
## Loan Sale or Transfer

The lender may grant the borrower a forbearance for a period of delinquency existing at the time the loan is sold or transferred, if the borrower or endorser is less than 60 days delinquent on the loan at the time of the loan sale or transfer.
[§682.211(f)(8)]

## 10.19.K
## Natural Disasters, Local or National Emergency, or Military Mobilization

If the lender determines that the ability of the borrower or endorser to make payments is adversely affected by a natural disaster, a local or national emergency (declared by the appropriate government agency), or a military mobilization, the lender may grant an administrative forbearance for a period not to exceed 3 months. The lender must document the reason it granted the forbearance in the borrower's loan file. Continuation of the forbearance beyond the 3-month period based on the same situation requires supporting documentation and an agreement with the borrower or endorser.
[§682.211(f)(11); Disaster Letter 99-28]

## 10.19.L New Out-of-School Dates after Conversion to Repayment

If a Stafford, PLUS, SLS, or Consolidation loan is in repayment, and the lender receives a new out-of-school date or deferment end date showing that the borrower should have entered repayment earlier than was previously reported, the lender may apply an administrative forbearance between the original repayment start date and the adjusted date. The lender may not use administrative forbearance to resolve a delinquency that existed on the loan before the information was received. After the lender's adjustments, the loan should retain the status that was applicable before the new information was received; further, due diligence must continue on the loan.

## 10.19.M Repayment Alignment

A borrower with one or more Stafford loans that have not entered repayment and one or more SLS loans is eligible to have the repayment period start dates on these loans aligned. A borrower's request for aligned repayment may be made verbally or in writing. A separate request is unnecessary when the borrower has signed the Stafford loan Master Promissory Note, which authorizes the lender to align repayment of the borrower's Stafford and SLS loans.

If repayment alignment is requested by an eligible borrower, the lender must align the repayment of the borrower's SLS loan(s). If the SLS loan is not eligible for deferment, the lender must apply an administrative forbearance to postpone repayment until the end of the grace period on the borrower's Stafford loan. If the borrower has multiple Stafford loans that have not yet entered repayment and those loans have grace periods that are different in length, the lender must postpone repayment of the SLS loan(s) until the end of the longest applicable Stafford loan grace period. In addition, a lender may apply an administrative forbearance to a Stafford loan(s) that has entered repayment in order to align the repayment of all the borrower's Stafford and SLS loans.

For more information on aligning the repayment of Stafford and SLS loans and on required borrower notifications, see subsection 9.4.C.
[§682.209(a)(2)(iii); DCL 96-L-186/96-G-287, Q&As #19 and #24]

## 10.19.N Repurchase of a Non-Bankruptcy Claim

In the case of a repurchase, the lender may administratively forbear the loan during the period the loan was held by the guarantor due to a claim purchase. The capitalization may include interest accrued from the date of the claim payment through the repurchase date. The lender must document that the capitalization was the result of a repurchase. If the repurchase is due to the loan's loss of guarantee, see subsection 12.3.D.

## 10.19.O Total and Permanent Disability

If the lender receives reliable information indicating that the borrower has become totally and permanently disabled, the lender may grant a forbearance for a period not to exceed 60 days until the lender receives documentation of the total and permanent disability.

If the lender is advised by the borrower's physician (who is a doctor of medicine or osteopathy and is legally authorized to practice in a state) that additional time is needed either to determine if the borrower is totally and permanently disabled or to complete the borrower's discharge documentation, the lender must grant an administrative forbearance to the borrower and, if applicable, the endorser. This period of required administrative forbearance, which cannot exceed 60 days from the date the lender receives the physician's request for additional time, is in addition to the optional period of administrative forbearance discussed above. The lender may not require the borrower to submit a request for the forbearance. For more information on the suspension of collection activities in the event of the total and permanent disability of a borrower, see subsection 12.8.E. [§682.211(f)(5); §682.402(c)]

## 10.19.P
## Unpaid Refund Discharge

If the lender receives the borrower's unpaid refund discharge request more than 60 days from the date on which the lender sent the request to the borrower, the lender may grant an additional administrative forbearance on any affected loan. This forbearance may cover the period from the end of the initial 60-day administrative forbearance to the receipt of the completed discharge request.

The lender must grant, on any affected loan, an administrative forbearance for payments of principal and interest that are delinquent or that would be due during all of the following periods.

- The period beginning on the date the lender or guarantor sends the borrower an unpaid refund discharge request and ending on either of the following:
  - The date the lender receives the guarantor 's determination, if the borrower returns the request within 60 days from the date the lender sent the request.
  - The 60th day, if the borrower does not return the request within 60 days from the date the lender sent the request.
- The period beginning on the date the lender receives notification from the guarantor of the borrower's request for a review of a denial determination and ending on the date that the lender receives the guarantor's determination.

In addition, after the discharge request is received by the lender, the lender may grant another administrative forbearance to cover the period needed by the guarantor to determine the borrower's eligibility for an unpaid refund discharge.

This type of forbearance does not require the written request of the borrower. The lender must notify the borrower or endorser that such a forbearance was granted. See subsection 12.8.F for more information on unpaid refund discharges.
[§682.402(l)]

## 10.20
## Discretionary Forbearance

A lender is encouraged to grant a discretionary forbearance to assist a borrower or endorser in fulfilling the repayment obligations on the loan and to help prevent default. The lender may grant forbearance based on either a written or verbal agreement with the borrower. Situations in which the lender may choose to grant forbearance include, but are not limited to:

- The borrower has personal problems (such as economic hardship) are temporarily affecting the borrower's or endorser's ability to make scheduled payments.
- The borrower is unemployed but has already received the maximum unemployment deferment.
- The borrower has had poor health or a prolonged illness or disability but does not meet applicable disability deferment criteria.
- The borrower is attending school or is a full-time volunteer in an organization and the school or organization does not meet the appropriate deferment criteria.
- The borrower or endorser wants to change the payment amount or payment due date on a loan that requires the lender to bring the loan current first or forgo some due diligence activities (see subsection 9.11.C for information on changing due dates).

If the discretionary forbearance is based on a verbal agreement, the lender must send, within 30 days of that agreement, a notice to the borrower or endorser confirming the terms of the forbearance.

## 10.20.A
## Reduced-Payment Forbearance

One type of discretionary forbearance a lender may grant is a reduced-payment forbearance. Under this type of discretionary forbearance, the borrower or endorser and the lender agree to establish temporary payment terms for the duration of the forbearance that may be inconsistent with the minimum annual payment amount. This agreement may be verbal or written.

When establishing the temporary payment terms for the period of forbearance, the lender and borrower or endorser may agree to a payment amount that is greater than, equal to, or less than the amount of accruing interest.

As with other types of discretionary forbearance, a lender must obtain a signed forbearance agreement that establishes the terms of the forbearance or document the terms of any verbal agreement. If the reduced-payment forbearance agreement is verbal, the lender must document the borrower's request, the reason for the forbearance, and the terms of the forbearance agreement. The lender must also send, within 30 days of the agreement, a notice to the borrower or endorser confirming the terms of the forbearance agreement. In addition to other applicable forbearance notification requirements (see section 10.18), the lender must provide the following information regarding the reduced-payment forbearance in its notification to the borrower or endorser:

- The required payment amount during the reduced-payment forbearance.
- The address to which payments must be sent.
- The consequences, if any, of delinquency on the payments required during the forbearance period.

If a borrower or endorser fails to fulfill his or her agreement to make payments during the reduced-payment forbearance, the lender must comply with the terms of the forbearance agreement and, if included in the terms and if applicable, perform collection activities and file a claim. For more information on due diligence activities during a reduced-payment forbearance, see section 11.4.

## 10.21 Mandatory Administrative Forbearance

A lender is required to grant a mandatory administrative forbearance when applicable. This type of forbearance does not require the written request of the borrower. As soon as feasible, the lender must notify the borrower or endorser that the lender has granted a forbearance and indicate the date that payments should resume. The lender's notification must state that the borrower or endorser:

- May decline the forbearance and continue to be obligated to make scheduled payments.
- Consents to make payments in accordance with the lender's notification if the forbearance is not declined.

Any outstanding delinquency that precedes the beginning date of a mandatory administrative forbearance period cannot be resolved by the mandatory administrative forbearance. See subsections 10.18.F and 10.19.F for more information about resolving a delinquency that precedes a mandatory administrative forbearance.[1]

## 10.21.A Death

The lender must grant a mandatory administrative forbearance after receiving reliable but unofficial information indicating that the borrower or, in the case of a PLUS loan, the borrower or dependent student has died. This mandatory administrative forbearance ends when the lender receives documentation of the death, but in no case can it exceed 60 days. This type of forbearance does not require a written request nor is the lender required to notify the borrower or endorser that such a forbearance was granted.

See subsection 10.19.E for the administrative forbearance period applicable to death discharges. See subsection 12.8.C for information on claim filing procedures for loans that are eligible for discharge due to a borrower's or, in the case of a PLUS loan, the borrower's or dependent student's death.
[§682.211(i)(6); §682.402(b)(3)]

## 10.21.B Exceptional Circumstances

For the following three types of forbearance, the lender is not required to notify the borrower or endorser at the time forbearance is granted. A mandatory administrative forbearance must be granted by the lender until the Department or the guarantor notifies the lender that the forbearance period no longer applies. The lender must grant a forbearance to a borrower or endorser during any period, and during the 30 days following the period, when the lender is notified by the Department that any of the following situations apply:
[§682.211(i)(2)]

### Local or National Emergency

The lender must grant a forbearance for a local or national emergency. The lender may not require a borrower to submit a request for the forbearance or supporting documentation.

1. Policy 725 (Batch 108), approved November 20, 2003

#### Military Mobilization

The lender must grant a forbearance for a military mobilization. A military mobilization is defined as a situation in which the U.S. Department of Defense orders members of the National Guard or the Reserves to active duty under sections 688, 12301(a), 12301(g), 12302, 12304, and 12306 of Title 10, United States Code. A military mobilization also includes the assignment of other members of the Armed Forces to duty stations at locations other than the locations at which they are normally assigned, if the military mobilization involves the activation of the National Guard or the Reserves. The lender must require a borrower or endorser who requests forbearance because of a military mobilization to provide documentation showing that the borrower is subject to a military mobilization as described above.

#### Disaster

A lender must grant a forbearance for a borrower or endorser if the geographic area in which the borrower or endorser resides has been designated a disaster area by the president of the United States or Mexico, the prime minister of Canada, or by a governor of a state. The lender may not require a borrower to submit a request for the forbearance or supporting documentation.

## 10.21.C Repayment Accommodation

A lender must grant a mandatory administrative forbearance to a borrower or endorser during a period when the borrower or endorser is making payments for a period of:

- Up to 3 years, in cases where the effect of a variable interest rate on a standard or graduated repayment schedule would result in a loan not being repaid within the maximum repayment period.

- Up to 5 years, in cases where the effect of decreased installment amounts paid under an income-sensitive repayment schedule would result in the loan not being repaid within the maximum repayment period. [§682.211(i)(5)]

  For more information on repayment terms, see section 9.6.

~~Any prior delinquency is not resolved by a mandatory administrative forbearance.~~[1]

## 10.21.D Teacher Loan Forgiveness

The lender must grant a mandatory administrative forbearance for payments of principal and interest that are delinquent or that would be due during the following periods:

- For a period not to exceed 60 days while the lender is awaiting a completed Teacher Loan Forgiveness Application from the borrower.

- For the period beginning on the date the lender receives a completed Teacher Loan Forgiveness Application and ending on the date the lender receives a denial of the request or the forgiveness amount from the guarantor.
  [§682.215(e)(1)(ii) and (iii)]

These types of forbearance do not require the written request of the borrower.

## 10.22 Mandatory Forbearance

Upon receiving a borrower's request and documentation required to support the borrower's eligibility, a lender must grant a forbearance in any of the situations listed below. In all cases, the lender must provide the borrower with a written agreement that explains the terms of the forbearance.

## 10.22.A Debt Exceeds Monthly Income

The lender must grant forbearance in increments of up to one year, for periods that collectively do not exceed three years, if the borrower or endorser is currently obligated to make payments on Title IV loans and the amount of those payments each month—or a proportional share, if the payments are due less frequently than monthly—is collectively equal to or greater than 20% of the borrower's or endorser's total monthly income.

Before granting a forbearance to a borrower or endorser, in this case, the lender must require the borrower or endorser to submit at least the following documentation:

- Evidence of the amount of the most recent total monthly gross income received by the borrower or endorser from employment and other sources.

1. Policy 725 (Batch 108), approved November 20, 2003

- Evidence of the amount of the monthly payments owed by the borrower or endorser to other entities for the most recent month for the borrower's or endorser's Title IV loans.
  [§682.211(h)(2) and (3)]

## 10.22.B Internship or Residency

A lender must grant forbearance to a qualified borrower who meets either of the following criteria:

- The borrower has exhausted his or her eligibility for internship/residency deferment.

- The borrower's promissory note does not provide for an internship/residency deferment.

Eligibility and documentation requirements are the same as for a borrower who has requested an internship/residency deferment (see section 10.6). A lender must grant forbearance in 12-month increments unless the actual period during which a borrower is eligible is less than 12 months.

For a medical or dental internship or residency, the forbearance must cover one of the following:

- The length of time remaining in the borrower's medical or dental internship or residency that must be successfully completed before the borrower may begin professional practice or service.

- The length of time the borrower is serving in a medical or dental internship or residency program leading to a degree or certificate awarded by an institution of higher education, a hospital, or a health care facility offering postgraduate training.

For any other internship or residency, the forbearance must cover one of the following:

- The length of time remaining in the borrower's internship or residency that must be successfully completed before the borrower may begin professional practice or service.

- The length of time the borrower is serving in an internship or residency program leading to a degree or certificate awarded by an institution of higher education.
  [HEA 428(c)(3)(a)(i)(I); §682.211(h)]

## 10.22.C National Service, Loan Forgiveness, or Department of Defense Repayment

The lender must grant forbearance in yearly increments—or a lesser period equal to the actual period during which the borrower is eligible—for any period during which the borrower meets one of the following criteria:

- Serves in a national service position for which the borrower receives a national service educational award under the National and Community Service Trust Act of 1993 (AmeriCorps). Before granting a forbearance to a borrower or endorser under this program, the lender must require the borrower or endorser to submit documentation of the beginning and ending dates for the period the borrower is serving in a national service position.

- ~~Maintains eligibility for loan forgiveness under the Loan Forgiveness Demonstration Program for Child Care Providers (if the program is funded) for performing the required type of service. For more information on this program, see subsection 12.9.A.~~Performs service that would qualify the borrower for forgiveness under the Child Care Provider Loan Forgiveness Program (see subsection 12.9.A), unless the borrower has been granted a deferment for that period of service. Before granting a forbearance to a borrower, the lender must receive a completed FFELP Child Care Provider Loan Forgiveness Forbearance Form.

  For additional information, refer to pages 39263-39265 of the *Federal Register* dated July 27, 2001, and pages 55385-55387 of the *Federal Register* dated August 29, 2002.[1]

- Performs service that would qualify the borrower for partial loan repayment under the Student Loan Repayment Programs administered by the U.S. Department of Defense under 10 U.S.C. 217l. Before granting a forbearance to a borrower or endorser under this program, the lender must require the borrower or endorser to submit documentation of the beginning and ending dates for which the U.S. Department of Defense considers the borrower to be eligible for a partial repayment of the borrower's loan under the Student Loan Repayment Programs.
  [§682.211(h)(3)]

1. Policy 700 (Batch 106), approved September 18, 2003

- Maintains eligibility for loan forgiveness under the Teacher Loan Forgiveness Program and, at the time of each annual request, the lender believes that the cancellation amount will satisfy the anticipated outstanding loan balance at the time of the expected cancellation. Before granting a forbearance to a borrower, the lender must require the borrower to submit the following:

  – Documentation showing the beginning and anticipated ending dates of the period during which the borrower expects to perform the qualifying teacher service for that year (see subsection 12.9.B).

  – A self-certifying statement of the borrower's intent to satisfy the teacher loan forgiveness requirements.

[§682.211(h)(2)(ii)(C);§682.211(h)(3)(iii); §682.215(e)(1)(i)]

Note: Lenders may offer discretionary forbearance to borrowers who do not qualify for mandatory forbearance.

## 10.22.D Applying a Mandatory Forbearance Retroactively

A lender may grant mandatory forbearance retroactively, but single periods of forbearance may not exceed 12 months. The forbearance ends on the date that is 12 months after the date on which it began, or the date on which the borrower's eligibility ends, whichever is earlier.

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# 11 Due Diligence in Collecting Loans


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Chapter 11 identifies the minimum due diligence requirements to which lenders must adhere in order to retain the guarantee on the loan. Due diligence is the term used to describe the required activities and timelines applicable to the collection of FFELP loans.

Compliance with due diligence requirements is crucial; failure to meet these requirements within their respective time frames may result in an inability to collect the loan, rejection of a lender's claim, cancellation of the guarantee on the loan, or a reduction of the interest that would normally be paid at the time of claim purchase. Except as detailed in subsection 11.4.B and as noted otherwise throughout this chapter, due diligence requirements described in this chapter are for loans with monthly repayment obligations. Lenders with loans with repayment obligations less frequent than monthly should contact their guarantor with questions regarding the unique servicing requirements for these loans. (See section 1.6 for guarantor contact information.)[1]
[§682.401(b)(19)]

The lender must adhere to the federal requirements to ensure prompt collection of any past due loan payments and to preserve the guarantee on the loan. These requirements preempt any state law—including state statutes, regulations, or rules—that would conflict with or hinder a lender's satisfaction of the requirements or frustrate the purposes of these requirements.
[§682.411(o)]

Any reference to a borrower in this chapter also refers to any applicable comaker—one of two PLUS or Consolidation loan borrowers who are held jointly and severally liable for the loan's repayment. Therefore, due diligence activities required for the borrower are also required for the comaker. For example, if the lender is required to send a letter at a certain point of delinquency, it must send the same letter to both borrowers. Failure to perform collection activities on one or both comakers is a violation of due diligence provisions and will result in interest penalties or the loss of the loan's guarantee.

Endorser requirements differ from those for borrowers and comakers, and are identified in each applicable section and highlighted in subsection 11.4.E.

1. Policy 712 (Batch 107), approved October 16, 2003

## 11.1 Collection Philosophies, Goals, and Minimum Standards

The lender's collection practices must focus on preventing the default of its delinquent and ineligible borrower loans. The lender should develop a systematic and thorough approach to collecting on its loans, using, at a minimum, the due diligence standards prescribed in this chapter. In addition, the lender may use its own consumer loan collection practices. Lenders are strongly encouraged to develop standards that are in the best interest of both borrowers and the FFELP.
[§682.208(c)]

## 11.2 Situations Requiring Collection Activities

The collection activities that are known as "due diligence" in the FFELP must be performed in the following situations:

- A borrower is delinquent in making payments.
- A lender is unable to determine the address of a borrower whose loan is delinquent.
- A borrower is determined to be ineligible for a loan (due to the borrower's or student's error).

A loan is considered delinquent if the lender has not received a borrower's payment by the day after the payment due date. A lender must ensure that the due date of the first payment is established according to the requirements described in section 9.5.
[§682.411(b)]

## 11.3 Factors Relating to Collection Activities

There are a number of factors related to servicing a FFELP loan that lenders must consider in conducting collection activities. The following subsections identify some of these factors.

### 11.3.A Bankruptcy Petition Filing

Lenders must suspend collection activities upon receipt of official notice that the borrower has filed a bankruptcy petition.

Some guarantors permit the suspension of collection activities in response to "unofficial" notification of a borrower's bankruptcy filing. These provisions are noted in appendix C.

See subsection 12.8.A for more information regarding acceptable notifications with respect to a borrower's filing of a bankruptcy petition.

## 11.3.B Deferment Eligibility

If, at any time during the performance of collection activities, a lender learns that a borrower may be eligible for a deferment, the lender must explain the conditions for obtaining the deferment and make the deferment option available. A borrower who has not yet defaulted on his or her loan must be granted a deferment if he or she meets all applicable eligibility requirements (see subsection 10.1.A). [§682.210(a)(7)]

A lender may grant a deferment after a borrower has defaulted on a loan if the borrower submits the necessary deferment documentation and makes payment arrangements acceptable to the lender to resolve the default (see subsection 10.1.G). Collection activities are no longer required if the deferment brings the account current. [§682.210(a)(8)]

## 11.3.C Forbearance Option

A lender is encouraged to grant forbearance to a borrower or endorser who intends to repay a loan, but who is temporarily unable to make payments due to poor health or other personal problems and does not qualify for a deferment or mandatory forbearance (see section 10.22). If either the borrower or the endorser is granted a forbearance for the temporary cessation of payments, collection activities outlined in section 11.4 must be suspended on the loan.
[§682.211(a); DCL 96-L-186/96-G-287, Q&A #60]

## 11.3.D Payment Application during Delinquency

Except for a payment received from a school (i.e., a school refund or a payment to comply with the requirements for the return of Title IV funds), any payment received from or on behalf of a borrower who has a delinquent loan must be applied to resolve the earliest missed payment—unless the payment is made by a comaker, cosigner, or endorser for a specific loan. If a lender's policy permits, a borrower's due date may be advanced if the payment received is within $5 of the amount due or the borrower's regularly scheduled payment amount (see subsection 9.11.A).
[§682.411(b); DCL 96-L-186/96-G-287, Q&A #46, and May 1996 supplement to the DCL]

If a lender receives a payment that equals or exceeds the amount of a single monthly payment (which may include late charges), the lender must, unless otherwise requested by the borrower, use that payment to advance the due date on the borrower's loan at least one month, regardless of how those monies are applied to collection or late charges, principal, or interest (see subsection 9.11.B).
[§682.209(b)]

## 11.3.E Rolling Delinquency

A rolling delinquency occurs when the delinquent status of a loan is increased or reduced—but not completely eliminated—as the result of any of the following:

- A payment.
- The reversal of a payment (such as a nonsufficient funds check).
- The expiration of a deferment or forbearance.
- The receipt of a new out-of-school date.

EXAMPLE
A borrower's loan becomes 120 days delinquent. The borrower remits a payment that reduces the delinquency to 30 days delinquent. The lender must now repeat certain activities on the loan as the borrower's delinquency again increases. For example, a request for default aversion assistance must be submitted if the borrower's delinquency again reaches the level at which default aversion assistance is required (see subsection 11.5).
[§682.411(d)(3)]

A rolling delinquency affects due diligence requirements, as noted in subsections 11.4.A and 11.4.B.

## 11.3.F
## Special Occurrence

A lender's due diligence requirements may at times be affected by an event that does not change a borrower's payment due date. Such an event is known as a "special occurrence." A special occurrence results from one or both of the following:

- The lender's receipt of a valid telephone number for the borrower.
- The lender's receipt of a valid address for the borrower.

In the event of a special occurrence, the lender is required to perform all due diligence activities appropriate to the level of delinquency on the loan at the time the event occurs, as noted in subsections 11.4.A and 11.4.B.

> EXAMPLE
> A lender receives returned mail and also discovers that it does not have a valid telephone number for a borrower whose loan is not yet delinquent. The lender chooses to perform all required skip tracing activities but fails to locate the borrower or obtain a valid telephone number. The loan subsequently becomes delinquent. No due diligence activities are required at this point, except that the lender must file a request for default aversion assistance with the guarantor. The lender then receives the borrower's valid address and a valid telephone number from the guarantor, school, or another source. A "special occurrence" has now taken place. The lender is required to perform due diligence activities applicable to the level of delinquency of the loan at the time the lender is notified of the borrower's valid address and telephone number.

## 11.3.G
## Collection Costs and Late Charges

As permitted under federal regulations, applicable state law, and the terms of the promissory note, a lender may assess the borrower reasonable collection costs and late charges for expenses incurred in collecting a missed payment. Collection costs may include court costs and attorney fees, but may not include the costs of standard collection activities (preparing and mailing notices, making personal contacts and telephone calls, etc.). A lender may deduct allowable collection costs and late charges directly from any payment received from the borrower. [§682.202(f) and (g)]

## 11.4
## Satisfying Due Diligence Requirements

To satisfy due diligence requirements, a lender must perform the collection activities specified in the schedules in subsections 11.4.A and 11.4.B. A lender may perform the required activities in the manner that is most effective—provided the minimum number of written contacts and telephone attempts are made and no gap of greater than 45 days in activity occurs. A violation occurs if a lender fails to complete any of the required activities within the corresponding time frame or if the lender permits a gap of 46 days or more between activities. If a violation occurs, the lender may incur interest penalties or jeopardize the guarantee on the loan. If the guarantee on a loan is lost, the lender also loses the right to collect interest benefits and special allowance payments otherwise payable by the Department from the date of the earliest unexcused violation. See chapter 13 for more information regarding violations and the assessment of penalties.

### 5-Day Tolerance

A lender is permitted a 5-day tolerance at the end of each time frame during which due diligence activities are required. This permits the lender to perform, without penalty, some activities later than prescribed.

### Telephone and Address Skip Tracing

If a lender has a valid address for a borrower, but does not have his or her valid telephone number, the lender must make diligent attempts to obtain a telephone number (as described in section 11.8) and continue to fulfill other due diligence requirements, such as sending letters or notices and requesting default aversion assistance in a timely manner.

If a delinquent borrower's or endorser's address is unknown, a lender must perform skip tracing activities (as described in section 11.7) instead of normal collection activities for the individual whose address is unknown. Due diligence activities must continue for the individual whose address *is* known. If the lender initiates and exhausts its efforts to locate the borrower or endorser before the beginning of the borrower's or endorser's delinquency, the lender is not required to initiate new skip tracing activities unless a new address is obtained and the borrower or endorser subsequently becomes a "skip" before the date on which the final demand letter is mailed. The lender must submit another request for default aversion assistance if the borrower's loan again ages below the level at which default

aversion assistance is required by the guarantor (see section 11.5).
[DCL 96-L-186/96-G-287, Q&As #59 and #60]

### Interest-Only Payments and Reduced-Payment Forbearances

For loans on which payments of interest are due, a lender may schedule a borrower for interest-only payments—if the borrower requests such payments—during in-school and grace periods, during deferment, and during forbearance for periods of required medical or dental internship. If a borrower fails to make scheduled interest-only payments, the only activities required of lenders for the period during which an interest-only payment is delinquent are those outlined in subsection 9.10.C.
[§682.202(b)(5)]

If the borrower fails to make interest-only payments as scheduled and his or her address is not valid, the lender need not send the notice that is otherwise required, but may capitalize the delinquent interest (see subsection 10.18.I for information regarding the required notice).

A lender may file a default claim solely on the basis of delinquent interest-only payments only if the payments are the result of an income-sensitive repayment schedule or a reduced-payment forbearance (see subsection 12.6.A).

A lender also may schedule a borrower or endorser for a reduced-payment forbearance. Under this agreement, a borrower's or endorser's scheduled payment amount is temporarily reduced for a time period specified in the forbearance agreement. If a borrower or endorser fails to fulfill his or her agreement to make the reduced payments, the lender must comply with the terms of the forbearance agreement and, if included in the terms of the agreement, perform collection activities and file a claim as applicable.

Collection activities performed in accordance with a reduced-payment forbearance agreement must require payment based on the reduced-payment amount due during the forbearance period. If the borrower or endorser remains delinquent at the expiration of the reduced-payment forbearance, any collection activities that follow must be based on the applicable monthly payment amounts.

## 11.4.A Due Diligence Requirements for Loans with Monthly Repayment Obligations

If a lender has a valid address and telephone number for a borrower with a monthly repayment obligation, the lender must perform—at a minimum—the following due diligence activities within the noted time frames. In at least one of the collection activities, the lender must inform the borrower of the availability of the Department's Student Loan Ombudsman's office (see appendix D).
[§682.411(b)(3)]

In all cases, the lender must ensure that no gap in collection activity of 46 days or more (61 days in the case of a loan sale or transfer) exists. See subsection 13.1.D for a definition of what constitutes a gap in collection activity.
[§682.411(b)(2)]

If the borrower's address or telephone number is unknown, the lender must follow the skip tracing requirements described in sections 11.7 and 11.8.

### 1–15 days delinquent

The lender must send the borrower at least one written notice or collection letter informing the borrower of the delinquency and urging the borrower to make payments sufficient to eliminate the delinquency. The notice or collection letter sent during this period must include, at a minimum, lender/servicer contact information and a telephone number (e.g., the name and telephone number of the customer service department). It also must include a prominent statement informing the borrower that assistance may be available if he or she is experiencing difficulty in making a scheduled repayment.
[§682.411(c)]

### 16–180 days delinquent

If there is no rolling delinquency and no special occurrences exist on the account, the lender must perform the following activities:

- Make at least four diligent efforts (each consisting of one successful contact or two unsuccessful attempts) to contact the borrower by telephone. At least one diligent attempt to contact the borrower by telephone must occur on or before the 90th day of delinquency, and another must occur after that date (see subsection 11.4.D).

- Send the borrower at least four written notices or collection letters informing the borrower of the delinquency and urging the borrower to make

payments. The required notices or collection letters sent during this period must include, at a minimum, information regarding deferment, forbearance, income-sensitive repayment, loan consolidation, and other available options to avoid default. At least two of the collection letters must warn the borrower that if the loan is not paid *(a)* the loan may be assigned to the guarantor, which would result in a default being reported to all national credit bureaus, and *(b)* the guarantor may offset the borrower's state and federal tax refunds and other payments made by the federal government to the borrower, garnish the borrower's wages, or assign the loan to the federal government for litigation against the borrower.
[§682.411(d)(1) and (2); DCL 96-L-186/96-G-287, Q&A #53]

#### Default Aversion Assistance Request Period

The lender must request default aversion assistance from the guarantor no earlier than the 60th day and no later than the 120th day of the borrower's delinquency (see section 11.5). The lender must request default aversion assistance regardless of the status of the borrower's address (valid, invalid, unknown, etc.).
[§682.411(i)]

#### 181—240 days delinquent

The lender must engage in collection efforts that urge the borrower to make the required payments on the loan. These efforts, at minimum, must provide the borrower with options to avoid default and advise the borrower of the consequences of defaulting on a loan.
[§682.411(e)]

#### 241 days or more delinquent

The lender must mail a final demand letter to the borrower anytime the loan becomes 241 days or more delinquent. There are two exceptions to this requirement under which the lender is excused from mailing the borrower a final demand letter:

- The loan becomes 241 days or more delinquent and the borrower's address is invalid and remains invalid after the lender has exhausted all required skip tracing activities and required diligent efforts.

- The lender previously mailed a timely final demand letter prior to a rolling delinquency or a special occurrence (see subsections 11.3.E and 11.3.F), and the borrower is 241 days or more delinquent.

The final demand letter must require the borrower to remit payment in full and warn that if the borrower defaults on the loan, the default will be reported to a national credit bureau. The lender must allow the borrower at least 30 days after the date the letter is mailed to respond to the final demand letter and to bring the loan out of default before filing a default claim on the loan.
[§682.411(f); §682.411(h)(3)]

After mailing the final demand letter, a lender may continue the collection efforts required in the 16–240 days of delinquency. Any collection effort (verbal or written) made or performed as made-up activity after the date the final demand letter is mailed must support the final demand (see section 13.3).
[DCL 96-L-186/96-G-287, Q&A #54]

Some guarantors have additional requirements regarding collection efforts after the final demand. These requirements are noted in appendix C.

#### Due Diligence with a Rolling Delinquency or Special Occurrence

If a rolling delinquency or special occurrence (see subsections 11.3.E and 11.3.F) exists on the account, the lender must perform the requirements applicable to the time frames noted:

- If the account is 1–15 days delinquent as a result of a rolling delinquency or at the time of a special occurrence, the lender must follow the preceding due diligence requirements for loans that subsequently become 16 days or more delinquent. These requirements must include at least four diligent efforts to contact the borrower by telephone and at least four collection letters. At least one diligent effort must be performed on or before the 90th day of delinquency and one after the 90th day of delinquency.
[DCL 96-L-186/96-G-287, Q&A #50 and #51]

- If the account is 16–90 days delinquent as a result of a rolling delinquency or at the time of a special occurrence, the lender must make two diligent efforts to contact the borrower by telephone before the 181st day of delinquency (not applicable if the borrower's telephone number is invalid). Each diligent effort must involve one successful contact or two unsuccessful attempts to contact the borrower by telephone. Please note that the requirement to perform one diligent telephone effort on or before the 90th day of delinquency does not apply. If, despite these efforts, the lender is unable to contact the borrower by telephone, the lender must send at least two forceful

collection letters. If the lender's telephone efforts result in only a single contact with the borrower, the lender must send at least one forceful collection letter. [§682.411(d)(3)(i); DCL 96-L-186/96-G-287, Q&As #50 and #51, and May 1996 supplement to the DCL]

- If the account is 91–120 days delinquent as a result of a rolling delinquency or at the time of a special occurrence, the lender must make one diligent effort to contact the borrower by telephone before the 181st day of delinquency (not applicable if the borrower's telephone number is invalid). This diligent effort must involve one successful contact or two unsuccessful attempts to contact the borrower by telephone. If, despite these efforts, the lender is unable to contact the borrower by telephone, the lender must send at least one forceful collection letter. [§682.411(d)(3)(ii); DCL 96-L-186/96-G-287, Q&As #50 and #51, and May 1996 supplement to the DCL]

- If the account is more than 120 days delinquent as a result of a rolling delinquency or at the time of the special occurrence, no further diligent efforts to contact the borrower by telephone are required. The lender need only mail the final demand letter. [§682.411(d)(4)]

### Due Diligence in Claim Filing

*271–360 days delinquent*

The lender must file a default claim with the guarantor no later than the 360th day of delinquency (see subsection 12.6.A). A lender is encouraged to file a default claim on or after the 300th day of delinquency to permit the borrower the longest possible period in which to resolve the outstanding delinquency and avert default.[1]

Loans on which claims are filed before the 330th day of delinquency generally are eligible for special allowance payment through the date of claim payment (see subsection A.2.B for limitations). Loans on which claims are filed beyond the 330th day of delinquency are not eligible for special allowance payment beyond the 330th day of delinquency.
[§682.302(d)(1)(iv) and (v)]

## 11.4.B Due Diligence Requirements for Loans with Repayment Obligations Less Frequent Than Monthly

For a borrower with a delinquent account scheduled for repayment in installments less frequent than monthly (such as quarterly), the lender must perform—at a minimum—the following due diligence activities within the noted time frames. In at least one of the collection activities, the lender must inform the borrower of the availability of the Department's Student Loan Ombudsman's office (see appendix D).
[§682.411(b)(3)]

In all cases, the lender must ensure that no gap in collection activity of 46 days or more (61 days in the case of a loan sale or transfer) exists. See subsection 13.1.D for a definition of what constitutes a gap in collection activity.
[§682.411(b)(2)]

If the borrower's address or telephone number is unknown, the lender must follow the skip tracing requirements described in subsections 11.7 and 11.8.

### 1–15 days delinquent

The lender must send the borrower at least one written notice or collection letter informing the borrower of the delinquency and urging the borrower to make payments sufficient to eliminate the delinquency. The notice or collection letter sent during this period must include, at a minimum, lender/servicer contact information and a telephone number (e.g., the name and telephone number of the customer service department). It also must include a prominent statement informing the borrower that assistance may be available if he or she is experiencing difficulty in making a scheduled repayment.
[§682.411(c)]

### 16–240 days delinquent

If there is no rolling delinquency and no special occurrences exist on the account, the lender must perform the following activities:

- Make at least four diligent efforts (each consisting of one successful contact or two unsuccessful attempts) to contact the borrower by telephone. At least one diligent effort to contact the borrower by telephone must occur on or before the 120th day of delinquency, and another must occur after that date (see subsection 11.4.D).

1. Policy 710 (Batch 107), approved October 16, 2003

- Send the borrower at least four written notices or collection letters informing the borrower of the delinquency and urging the borrower to make payments. The required notices or collection letters sent during this period must include, at a minimum, information regarding deferment, forbearance, income-sensitive repayment, loan consolidation, and other available options to avoid default. At least two of the collection letters must warn the borrower that if the loan is not paid *(a)* the loan may be assigned to the guarantor, which would result in a default being reported to all national credit bureaus, and *(b)* the guarantor may offset the borrower's state and federal tax refunds and other payments made by the federal government to the borrower, garnish the borrower's wages, or assign the loan to the federal government for litigation against the borrower.
  [§682.411(d)(1) and (2); DCL 96-L-186/96-G-287, Q&A #53]

#### Default Aversion Assistance Request Period

The lender must request default aversion assistance from the guarantor no earlier than the 60th day and no later than the 120th day of the borrower's delinquency (see subsection 11.5.A). The lender must request default aversion assistance regardless of the status of the borrower's address (valid, invalid, unknown, etc.).
[§682.411(i)]

#### 241–300 days delinquent

The lender must engage in collection efforts that urge the borrower to make the required payments on the loan. These efforts, at minimum, must provide the borrower with options to avoid default and advise the borrower of the consequences of defaulting on a loan.
[§682.411(e)]

#### 301 days or more delinquent

The lender must mail a final demand letter to the borrower if the borrower's address is known (see subsection 11.6) anytime the loan becomes 301 days or more delinquent. There are two exceptions to this requirement under which the lender is excused from mailing the borrower a final demand letter:

- The loan becomes 301 days or more delinquent and the borrower's address is invalid and remains invalid after the lender has exhausted all required skip tracing activities and required diligent efforts.
- The lender previously mailed a timely final demand letter prior to a rolling delinquency or a special occurrence (see subsections 11.3.E and 11.3.F) and the borrower is 301 days or more delinquent.

The final demand letter must require the borrower to remit payment in full and warn that if the borrower defaults on the loan, the default will be reported to a national credit bureau. The lender must allow the borrower at least 30 days after the date the letter is mailed to respond to the final demand letter and to bring the loan out of default before filing a default claim on the loan.
[§682.411(f); §682.411(h)(3)]

After mailing the final demand letter, a lender may continue the collection efforts required in the 16–300 days of delinquency. Any collection effort (verbal or written) made or performed as made-up activity after the date the final demand letter is mailed must support the final demand (see section 13.3).
[DCL 96-L-186/96-G-287, Q&A #54]

Some guarantors have additional requirements regarding collection efforts after the final demand. These requirements are noted in appendix C.

#### Due Diligence with a Rolling Delinquency or Special Occurrence

If a rolling delinquency or a special occurrence (see subsections 11.3.E and 11.3.F) exists on the account, the lender must perform the requirements applicable to the time frames noted:

- If the account is 1–15 days delinquent as a result of a rolling delinquency or at the time of a special occurrence, the lender must follow the preceding due diligence requirements for loans that subsequently become 16 or more days delinquent. These requirements must include at least four diligent efforts to contact the borrower by telephone and at least four collection letters. At least one diligent effort must be performed on or before the 120th day of delinquency and one after the 120th day of delinquency.
  [DCL 96-L-186/96-G-287, Q&As #50 and #51]
- If the account is 16–120 days delinquent as a result of a rolling delinquency or at the time of a special occurrence, the lender must make two diligent efforts to contact the borrower by telephone before the 241st day of delinquency (not applicable if the borrower's telephone number is invalid). Each diligent effort must involve one successful contact or two unsuccessful attempts to contact the borrower by telephone. Please

note that the requirement to perform one diligent telephone effort on or before the 120th day of delinquency does not apply. If, despite these efforts, the lender is unable to contact the borrower by telephone, the lender must send at least two forceful collection letters. If the lender's telephone efforts result in only a single contact with the borrower, the lender must send at least one forceful collection letter. [§682.411(d)(3)(i); DCL 96-L-186/96-G-287, Q&As #50 and #51, and May 1996 supplement to the DCL]

- If the account is 121–180 days delinquent as a result of a rolling delinquency or at the time of a special occurrence, the lender must make one diligent effort to contact the borrower by telephone before the 241st day of delinquency (not applicable if the borrower's telephone number is invalid). This diligent effort must involve one successful contact or two unsuccessful attempts to contact the borrower by telephone. If, despite these efforts, the lender is unable to contact the borrower by telephone, the lender must send at least one forceful collection letter. [§682.411(d)(3)(ii); DCL 96-L-186/96-G-287, Q&As #50 and #51, and May 1996 supplement to the DCL]

- If the account is more than 180 days delinquent as a result of a rolling delinquency or at the time of a special occurrence, no further diligent efforts to contact the borrower by telephone are required. The lender need only mail the final demand letter. [§682.411(d)(4)]

#### Due Diligence in Claim Filing

*331–420 days delinquent*

The lender must file a default claim with the guarantor no later than the 420th day of delinquency (see subsection 12.6.A). A lender is encouraged to file a default claim on or after the 360th day of delinquency to permit the borrower the longest possible period in which to resolve the outstanding delinquency and avert default.[1]

Loans on which claims are filed before the 390th day of delinquency generally are eligible for special allowance payment through the date of claim payment (see subsection A.2.B for limitations). Loans on which claims are filed beyond the 390th day of delinquency are not eligible for special allowance payment beyond the 390th day of delinquency. [§682.302(d)(1)(iv) and (v)]

~~*For the remainder of this chapter, all references to time periods refer to loans with a monthly repayment obligation, unless otherwise noted.*~~[2]

## 11.4.C Written Notices and Collection Letters

All written notices and collection letters sent to a borrower should include the lender's or servicer's address and telephone number. The notices and letters should instruct the borrower to contact the lender or servicer to resolve the delinquent status of his or her loan. When sending collection letters, the lender must use language consistent with the guidelines provided in federal regulations (see subsections 11.4.A and 11.4.B). [§682.411(d)(2)]

## 11.4.D Contact by Telephone

When required to make diligent efforts to contact the borrower by telephone, the lender must do so periodically through the date of default.

Federal regulations define a diligent effort as any one of the following:

- One successful telephone contact with the borrower.

- At least two unsuccessful attempts to contact the borrower by telephone at a number that the lender reasonably believes to be the borrower's valid telephone number.

- An unsuccessful effort to obtain the valid telephone number for a borrower—including, but not limited to, a directory assistance inquiry as to the borrower's telephone number—and a diligent effort to contact each comaker, endorser, reference, relative, individual, or entity identified on the borrower's most recent loan application for a loan held by the lender. For more information on skip tracing to obtain a valid telephone number, see subsection 11.8. [§682.411(m)]

1. Policy 710 (Batch 107), approved October 16, 2003

2. Policy 712 (Batch 107), approved October 16, 2003

If a borrower calls or meets with the lender and the delinquency is discussed, the requirement to contact the borrower is satisfied. The contact must be noted in the borrower's file or the servicing history of the loan.

A lender must act on any information it receives. If, while attempting to reach the borrower, the lender is advised that the borrower can be reached at another telephone number or at another time of day, the lender must make an additional attempt to call the borrower at that number or at that time of day.

A lender is not required to make diligent efforts to contact a borrower by telephone in the following cases:

- The borrower resides outside a state, Mexico, or Canada.
- The borrower is incarcerated.
- The borrower's telephone number is invalid, and all required skip tracing activities have been performed.
- The lender is advised that the borrower has no telephone number or that there is no telephone service in the general geographic area in which the borrower lives, and the lender verifies and documents this in the borrower's file or the servicing history of the loan.

In the last two of the preceding cases, the lender may—but is not required to—send one letter in place of each of the otherwise required efforts to contact the borrower by telephone. However, in the case of a borrower who is incarcerated or who resides outside a state, Mexico, or Canada, a lender that chooses not to contact the borrower by telephone must substitute a forceful collection letter for each of the four diligent efforts to contact the borrower by telephone. This would result in a total of eight letters, in addition to the final demand letter, between the 16–180 days of delinquency (four letters in the delinquency series and four replacing the telephone efforts).
[§682.411(a) and (d)(4); DCL 96-L-186/96-G-287, Q&A #45]

## 11.4.E Endorser Due Diligence

An endorser is an individual who signs the borrower's promissory note, or completes an endorser addendum in the case of a PLUS loan, and agrees to be secondarily liable for the debt. Lenders are required to perform some collection activities to inform any endorser (sometimes referred to as cosigner) of the loan's delinquency. These requirements are defined in this subsection. This subsection also describes some situations in which the lender is excused from endorser due diligence requirements.

### Endorser Due Diligence Activities

The following collection efforts must be performed for any endorser on an FFELP loan. Endorser due diligence may be performed concurrently with borrower due diligence. Before filing a default claim on a loan with an endorser, the lender must:

- Make at least one diligent effort (consisting of one successful contact or two unsuccessful attempts) to contact the endorser by telephone (see subsection 11.4.D).
- Send the endorser at least two collection letters advising the endorser of the loan's past due status and urging the endorser to resolve the delinquency. At least one of the letters must warn the endorser of the consequences of default (see subsections 11.4.A and 11.4.B).
  [§682.411(n)]
- Mail the endorser a final demand letter on or after the 241st day of delinquency, as specified in section 11.6. The endorser must be permitted at least 30 days to comply with the terms of the final demand letter before a claim may be filed on the loan.
  [§682.411(n)(2)]

A diligent effort to contact an endorser may be used to satisfy both an endorser due diligence requirement and a borrower skip tracing requirement, provided the activity is documented as both in the lender's servicing history. If the endorser is reached, the lender must discuss both the delinquency of the loan and the endorser's obligation to repay the debt and must ask about the borrower's location and telephone number.

If a "rolling delinquency" exists on the account and the account rolls forward (becomes more past due) late in delinquency, the lender is required to complete the endorser due diligence activities. The endorser must be given notice of the severe delinquency and ample opportunity to honor the debt before the loan is paid as a default claim.
[DCL 96-L-186/96-G-287, Q&As #59 and #60]

If the lender has not performed all required collection activities for the endorser, the claim file will be returned to the lender, and the lender will be required to perform any missed activities before the claim will be purchased. The lender must refile the claim within the applicable claim

refiling time frames (see subsection 12.2.A). If the lender makes up the required activity and refiles the claim in a timely manner, no violation will be assessed.
[§682.406(a)(3); §682.411(n); December 18, 1992, Federal Register comments on §682.411]

#### Releasing the Endorser

A lender may release an endorser from his or her repayment obligation on a loan in any of the following cases:

- A release is provided in writing before the loan becomes delinquent, and the endorser was not obtained due to a PLUS loan borrower's adverse credit.
- The borrower dies or the student for whom a parent obtained a PLUS loan dies.
- The endorser dies, and the lender receives evidence of the endorser's death, such as a copy of the death certificate or other proof of the endorser's death that is acceptable under applicable state law.
- At the discretion of the guarantor.

## 11.4.F Ineligible Borrower Due Diligence

If a borrower is responsible for his or her ineligibility for all or a portion of a loan, the due diligence requirements outlined in this subsection apply. However, if it is determined that a borrower is ineligible for a loan due to a school's or lender's error, the borrower should not be penalized, nor should the lender file a claim on the loan. For information on determining which party is responsible for a borrower's ineligibility, see section 5.14.

The lender must—within 60 days of determining that a borrower is ineligible for a loan due to his or her own error—mail a final demand letter to the borrower. This letter must require the borrower to repay:

- The full principal amount of the ineligible portion of the loan.
- All outstanding accrued interest on the ineligible portion of the loan.
- Any interest benefits paid on the ineligible portion of the loan.
- Any special allowance originally billed by the lender or paid by the Department on the ineligible portion of the loan.

The lender must refund to the Department interest benefits on the ineligible portion of the loan, regardless of whether they were repaid by the borrower. If the borrower repays the amount of special allowance on the ineligible portion, the lender must forward the funds to the Department.
[§682.412]

The lender must allow an ineligible borrower at least 30 days after the date the final demand letter is mailed to respond. If, at the end of the 30-day time frame, the borrower fails to comply with the terms of the final demand letter, the lender must:

- Treat the loan as though it were in default. The entire loan is considered defaulted—even if the borrower was ineligible for only a portion of it.
- Cancel any pending disbursement(s).
- Refund all interest benefits paid on the ineligible portion of the loan.
- File an ineligible borrower default claim for the entire loan amount after the 30th and before the 120th day from the date the final demand letter is mailed (see subsection 12.6.B).
  [§682.412(e)]

If the borrower responds to the final demand letter by repaying less than the entire amount demanded, the lender must treat such a payment as a prepayment against the loan. The lender must file an ineligible borrower default claim for the remaining balance on the loan.

If the borrower repays the full amount demanded, the lender must refund to the Department, on its next quarterly ED Form 799, all interest benefits and special allowance payments paid by the Department on the ineligible portion of the loan. The lender must resume servicing any eligible portion of the loan.
[§682.412(d)]

## 11.5 Default Aversion Assistance

Default aversion assistance is collection assistance that a guarantor provides to supplement a lender's efforts to prevent default on a borrower's loan, but that does not replace the lender's responsibility to perform due diligence. If the lender fails to continue required due diligence while the guarantor is providing assistance, interest penalties or a loss of guarantee on the loan may result.
[§682.404(a)(2)(ii)]

## 11.5.A
## Default Aversion Assistance Request (DAAR)

A lender must submit a complete and accurate request for default aversion assistance no earlier than the 60th day and no later than the 120th day of the borrower's delinquency.

This time frame is referred to as the default aversion assistance request period. In absence of evidence to the contrary, the guarantor will monitor timely default aversion assistance request submission based on the lender's collection history. The lender must request default aversion assistance through the Default Aversion Assistance Request Form (see subsection 11.5.B) or an equivalent electronic process, such as the Common Account Maintenance (CAM) reporting process. In the case of a delinquent borrower whose address is invalid, the lender's request for default aversion assistance should also indicate that the borrower is a "skip." [§682.404(k); §682.411(i)][1]

If the lender submits a request for default aversion assistance after the 5th day following the default aversion request period, the request will be accepted and assistance will begin, but a due diligence violation of more than 5 days will have occurred. If a delinquency is accelerated based on a payment being returned due to nonsufficient funds, a penalty may not be assessed. If a lender fails to request default aversion assistance between the 60th and 120th day of delinquency, inclusive, and the lender later submits a claim on that loan, the lender will be subject to an interest penalty. If the lender fails to file a request by the 330th day, it will not be entitled to receive interest, interest benefits, and special allowance for the most recent 270 days preceding the date on which the loan defaults. [§682.411(i); §682, Appendix D]

A guarantor's default aversion assistance ends when the delinquency on the loan has been satisfactorily resolved. The lender must notify the guarantor as soon as the delinquency on the loan is reduced below the default aversion assistance cancellation date—preferably through the regular submission of the appropriate guarantor's reports.

A new request for default aversion assistance must be submitted if a previously submitted request has been satisfactorily resolved and the delinquency of the loan again reaches the point at which the lender must request assistance. If, after the lender has submitted a request to the guarantor, the borrower makes payments—but the payments are not sufficient to bring his or her loan(s) to less than the default aversion assistance cancellation date—it is not necessary to submit a new request. However, the lender must notify the guarantor of any changes in the delinquency status of the loan that result in a change to the payment due date—even if the delinquency is not reduced below the point at which the guarantor requires default aversion assistance to be canceled. In addition, the lender must report the effective date of the change that reduced the borrower's delinquency in a form acceptable to the guarantor.

Figure 11-1 lists the guarantor time frames applicable to several default aversion assistance activities.

Some guarantors have alternative time frames for default aversion assistance activities. These time frames are noted in appendix C.

## 11.5.B
## Default Aversion Assistance Request Form

The Default Aversion Assistance Request Form is designed to be used by a lender as a request for default aversion assistance. All loans included on the Default Aversion Assistance Request Form must have the same loan type, due date, and interest-paid-through date. Subsidized and unsubsidized Stafford loans under this subsection are considered the same loan type.

### Default Aversion Assistance Request Instructions

If a lender submits a request for default aversion assistance with any required information that is missing, incomplete, or inaccurate, the guarantor may attempt to obtain the necessary information from its own system or request the information from the lender.

The lender must provide the requested information or resubmit any rejected default aversion assistance request.

Figure 11-2 will help lenders determine what information must be provided on the default aversion assistance request. Detailed descriptions of these items are located in the instructions on the Default Aversion Assistance Request Form.

▲ Lenders may contact individual guarantors for more information on required data elements associated with the form or its equivalent electronic process. See section 1.6 for contact information.[2]

1. Policy 714 (Batch 108), approved November 20, 2003

2. Policy 714 (Batch 108), approved November 20, 2003

## Default Aversion Assistance (DAA) Time Frames — Figure 11-1

| Guarantor | DAA Cancellation Date[1] | Skip DAA Available[2] | Deadline for Refiling Rejected DAA Request[3] |
|---|---|---|---|
| American Education Services/Pennsylvania Higher Education Assistance Agency | 30 | All | 120 |
| American Student Assistance | 30 | 60-120 | None* |
| California Student Aid Commission/EdFund | 0 | 60-120 | 150* |
| Colorado Student Loan Program | 0 | 60-120 | 150* |
| Connecticut Student Loan Foundation | 30 | 60-120 | 150* |
| Education Assistance Corporation | 30 | 60-120 | 150* |
| Educational Credit Management Corporation | 0 | All | 120 |
| Finance Authority of Maine | 30 | 60-120 | None* |
| Florida Department of Education | 0 | All | 120 |
| Georgia Higher Education Assistance Corporation | 30 | 60-120 | 150* |
| Great Lakes Higher Education Guaranty Corporation | 30 | 60-120 | 150* |
| Illinois Student Assistance Commission | 30 | All | None* |
| Iowa College Student Aid Commission | 0 | All | 150* |
| Kentucky Higher Education Assistance Authority | 30 | All | None* |
| Louisiana Student Financial Assistance Commission | 30 | 60-120 | 150* |
| Michigan Higher Education Assistance Authority | 0 | 60-120 | 150* |
| Missouri Student Loan Program | 0 | 60-120 | 150* |
| Montana Guaranteed Student Loan Program | 30 | All | 150* |
| National Student Loan Program | 0 | 60-120 | 150* |
| New Hampshire Higher Education Assistance Foundation | 60 | None | None* |
| New Jersey Higher Education Student Assistance Authority | 60 | 60-120 | 150* |
| New Mexico Student Loan Guarantee Corporation | 30 | 60-120 | 150* |
| New York State Higher Education Services Corporation | 30 | All | 150* |
| North Carolina State Education Assistance Authority | 30 | None | 150* |
| Northwest Education Loan Association | 30 | 60-120 | 150* |
| Oklahoma State Regents for Higher Education | 30 | 60-120 | 150* |
| Oregon Student Assistance Commission | 30 | 60-120 | 150* |
| Rhode Island Higher Education Assistance Authority | 0 | None | 120 |
| South Carolina Student Loan Corporation | 30 | 60-120 | None* |
| Student Loan Guarantee Foundation of Arkansas | 0 | 60-120 | 150* |
| Student Loans of North Dakota | 60 | All | 150* |
| Tennessee Student Assistance Corporation | 30 | 60-120 | 150* |
| Texas Guaranteed | 0 | All | 150* |
| United Student Aid Funds, Inc. | 30 | 60-120 | None* |
| Utah Higher Education Assistance Authority | 0 | All | 120 |
| Vermont Student Assistance Corporation | 30 | None | None* |

1 If the delinquency date falls on 0 days delinquent (for guarantors with an entry of 0), or below 30 or 60 days delinquent (for guarantors with an entry of 30 or 60, respectively), the lender must notify the guarantor to cancel the request for DAA.
**Guarantor time frames may be either: 0, 30, or 60**

2 The period of time, expressed in number of days delinquent, established by a guarantor in which a lender may request skip tracing from the guarantor. An entry of "all" specifies that skip DAA is available throughout the life of the loan. An entry of "none" specifies that the guarantor does not offer skip DAA.
**Guarantor time frames may be either: All, 60-120, or None**

3 The deadline, expressed in number of days delinquent, for the lender to refile the request for DAA that was originally filed timely (within the 60-120 day period), but was rejected by the guarantor. Resubmissions that occur by the deadline are considered to be timely submitted DAA requests, for which a subsequent claim would be paid without a DAA penalty. An entry of "none" specifies that the corrected DAA must be resubmitted before a subsequent claim is reviewed. Resubmissions that occur after these deadlines are subject to the interest penalties and special allowance limitations described in Appendix D of 34 CFR 682.
**Guarantor time frames may be either: 120, 150, or None, * as long as the original request was filed during the 60-120 day DAA request period.**

## Information To Be Provided on the Default Aversion Assistance Request Form Figure 11-2

| Item Description | Required[1] | If Available[2] |
|---|---|---|
| Type of default aversion assistance requested (i.e., SK = skip assistance request, DF = default aversion assistance request for a borrower delinquent on monthly payments, DQ = default aversion assistance request for a borrower delinquent on payments due less frequently than monthly). | • | |
| Date the default aversion assistance request was generated. | • | |
| Borrower's Social Security number (SSN). | • | |
| Borrower's last name, first name, and middle initial. | • | |
| AKA (previous or alternative name used by the borrower). | | • |
| Borrower's last known address. | • | |
| Validity of the borrower's address. | | • |
| Address effective date. | | • |
| Borrower's home telephone number, work number, other number, and validity of the telephone numbers. | | • |
| Name, telephone number, and address of the borrower's place of employment. | | • |
| Name of the last-known eligible school attended by the borrower or attended by the student for a PLUS loan. | • | |
| The out-of-school date. Stafford loans—the date the borrower ended enrollment on at least a half-time basis, before any grace period and the initial conversion of the loan to repayment.<br>PLUS/SLS loans—the date the student or borrower ceased eligibility for an in-school deferment (for immediately deferred loans only).<br>Consolidation loans and PLUS/SLS loans not immediately deferred—the date of the last disbursement. For Consolidation loans, the latest disbursement date on the beginning loan balance should be used if the lender did not establish a new due date when an add-on was accomplished. If the lender did establish a new due date with the add-on loan, the disbursement date for the add-on should be provided. | | • |
| Six or eight-digit code assigned by the Department of the last-known eligible school attended by the borrower. | | • |
| Address and last name, first name, and middle initial of two references. | •[3] | |
| Validity of the references' address(es). | | • |
| Relationship of each reference to the borrower (i.e., E = employer, F = friend, G = guardian, O = other, P = parent, R = relative, S = sibling, M = spouse, or N = not available). | | • |
| Home telephone numbers, work numbers, other numbers, and validity of the telephone numbers for each reference. | | • |
| Loan type for each loan identified on the default aversion assistance request (i.e., SF= subsidized Stafford, including non subsidized prior to 10/92; SU = unsubsidized Stafford; PL= PLUS; SL = SLS; CL = Consolidation). | • | |
| Loan ID for each loan identified on the default aversion assistance request (e.g., the loan identifier code, file number, guaranty date, or amount, as indicated by the guarantor). | • | |
| First disbursement date for each loan identified on the default aversion assistance request, as specified in the lender's records. | • | |
| Current principal balance (including all reinsured and unreinsured capitalized interest) due on the date of the default aversion assistance request for each loan identified on the default aversion assistance request. | • | |
| Accrued interest due on the date of the default aversion assistance request for each loan identified on the default aversion assistance request. | • | |
| Date the loan sold (as applicable). | • | |
| Date on which the current servicer assumed responsibility for servicing the loan for each loan identified on the default aversion assistance request (as applicable). | • | |
| Payment due date of the borrower's first unmet payment. | • | |
| Payment amount of the borrower's currently scheduled installment. | • | |
| Amount of the most recent payment received and the date received. | | • |
| Total amount delinquent on the date the default aversion assistance request was generated. | • | |
| Number of days delinquent on the date the default aversion assistance request was generated. | • | |
| Total number of deferment and/or discretionary forbearance months granted to the borrower for each specific deferment or discretionary forbearance identified on the default aversion assistance request. | | • |
| Full name of the endorser, comaker, or PLUS student and identifying code (i.e., "E" if the individual is an endorser; "C" if the individual listed is a comaker; "S" if the individual listed is a PLUS student) | •[3] | |
| Endorser's, comaker's, or PLUS student's Social Security number. | •[3] | |
| Endorser's or comaker's last-known complete address and validity of the address. | •[3] | |
| Endorser's or comaker's home telephone number and validity of the number. | •[3] | |
| PLUS student's last-known complete address and validity of the address. | | • |
| PLUS student's home telephone number and validity of the number. | | • |
| Lender or servicer name and address. If the account is being serviced, only the servicer name and address must be provided. | • | |
| Lender's six-digit lender ID assigned by the Department and, as applicable, four-digit non-Department suffix. | • | |
| Servicer's six-digit servicer ID assigned by the Department. | •[3] | |
| Contact and telephone number to whom the borrower should be referred (e.g., Customer Servicer Department, Collection Department). | • | |
| Telephone number and name of the person or unit responsible for answering questions about information provided on the form. | • | |

1 Refers to information the lender must provide on the default aversion assistance request.

2 Refers to information the lender may or may not have. If the lender has the information it must be provided on the default aversion assistance request.

3 Refers to information the lender is required to provide on the default aversion assistance request with loans first disbursed on or after September 1, 1998. For disbursements prior to September 1, 1998, if the lender has the information, it must be provided on the default aversion assistance request.

## 11.5.C Default Aversion Assistance and Bankruptcy Filing

If the lender has received a Notice of the First Meeting of Creditors (the Notice) or other proof of filing from the borrower's attorney or the bankruptcy court (either directly from the court or from another source) that a borrower has filed for relief under any chapter of the bankruptcy code, the lender must cease collection activities and may not submit a default aversion assistance request to the guarantor. Further, if the lender has already requested default aversion assistance and receives notice of any bankruptcy action, the lender must immediately, within 5 business days of the lender's receipt of the Notice, notify the guarantor to cancel default aversion activities based on a bankruptcy action filed on the borrower's loans.

A guarantor will permanently cancel a loan's guarantee if either of the following conditions occurs:

- The lender requests default aversion assistance on a loan on which it has received notice of a bankruptcy action.
- The lender fails to timely notify the guarantor, within 5 business days, to cease collection activity on a loan on which default aversion assistance was previously requested.

The loss of guarantee will be considered permanent and is based solely on whether the lender's failure to comply with these provisions results in the court's determining the loan to be unenforceable. The lender will be required to reimburse the guarantor for costs associated with defending itself against contempt of court charges on the account if those charges are based solely on the lender's failure to comply with these provisions and can be demonstrated accordingly. For more information on the suspension of collection during bankruptcy, see subsection 12.8.A.

In some cases, the lender will receive notice that the bankruptcy action has ended and the loan remains enforceable. These loans were deemed by the court as nondischargeable in the bankruptcy action, the bankruptcy case was dismissed, or the discharge was reversed. In each case, the lender must treat the loan as though it were in forbearance.

Any accrued interest should be capitalized from the date of the bankruptcy petition to the date the lender received notification that the bankruptcy action was concluded. The lender may also include in the administrative forbearance any period before the date of the bankruptcy petition for which the borrower was delinquent, as outlined in subsection 12.8.A, and bring the loan current.

If the lender permits a period of delinquency to remain on the loan after the bankruptcy action is concluded, and that delinquency is beyond the period when a request for default aversion assistance would have been generated, the lender must request default aversion assistance from the guarantor. That request must occur not later than 10 days from the date on which the lender receives notice that the stay on collection activities has been lifted. If the loan was purchased as a claim by the guarantor and subsequently repurchased and brought current by the lender, the request for default aversion assistance must be made within the appropriate time frame, as outlined in this subsection.

## 11.6 Final Demand Letter

A final demand letter must be mailed to a delinquent borrower and any endorser in accordance with the requirements outlined in subsections 11.4.A and 11.4.B. The final demand letter must require repayment of the loan in full and must warn that a default (due to failure to respond to the demand) will be reported to a national credit bureau. The lender must allow the borrower and/or endorser at least 30 days after the date the letter is mailed to respond to the letter before filing a default claim on the loan. [§682.411(f)]

If it is determined that a borrower was ineligible for his or her loan, separate requirements for the final demand letter apply (see subsection 11.4.F).

## 11.7 Address Skip Tracing

Skip tracing is the process by which lenders attempt to obtain corrected address or telephone information for borrowers for whom they receive information indicating that the current address is no longer accurate. Lenders may develop their own skip tracing processes, but must meet specific regulatory time frames and minimum standards. Address skip tracing and telephone number skip tracing are separate processes. See section 11.8 for information regarding telephone skip tracing.

The lender must satisfy skip tracing requirements each time the borrower is considered a "skip." Therefore, if a borrower moves after he or she is located by the lender, and the lender is unable to locate the borrower again, the lender

must repeat its skip tracing activities. All attempts to locate the borrower must be documented in the borrower's file or in the servicing history of the loan.

## 11.7.A
## Timing of Address Skip Tracing Activities

When a lender determines that it does not know the current address of a borrower whose loan is delinquent (for example, as a result of a telephone conversation with a reference or receipt of returned mail), the lender must initiate the following activities within the specified time frames:

- Within 10 days of making the determination, the lender must begin attempting to locate the borrower using effective commercial skip tracing techniques.

- If the lender has already begun telephone skip tracing activities for a borrower and makes a determination that it does not have a valid current address, the lender must initiate additional address skip tracing activities within 10 days of making the determination that it does not have a valid address for the borrower, but need not repeat any activities already completed when performing remaining address skip tracing activities.
  [§682.411(h)]

- In the case of a loan transfer that occurred within 10 days of the date the lender learned that it did not know the location of the borrower, the new lender will have an additional 15 days added to this 10-day time frame to initiate skip tracing activity for a borrower whose loan is delinquent.
  [DCL 96-L-186/96-G-287, Q&A #49]

- If the lender chooses to perform skip tracing during a period of grace, deferment, forbearance, or current repayment, no violations or gaps will be monitored. However, if the lender completes some—but not all—required skip tracing activities during such periods, remaining skip tracing must be performed if the account becomes delinquent. The next skip tracing activity must occur within 45 days of the borrower's first day of delinquency, and the remaining skip tracing must be completed with no gap greater than 45 days between activities and/or default.

## 11.7.B
## Address Skip Tracing When the Loan Is Not Delinquent

If a borrower's loan is not delinquent or has not yet been converted to repayment, the lender is encouraged to initiate skip tracing activities rather than delaying them until the loan becomes delinquent. Some guarantors provide skip tracing assistance for loans that are not delinquent (see subsection 11.5.A). If the lender completes a thorough skip tracing effort before a borrower becomes delinquent, it is not required to perform skip tracing again unless it receives a good address and the borrower becomes a "skip" before the final demand letter is mailed. If the lender chooses to perform skip tracing during a period of grace, deferment, forbearance, or current repayment, no violations or gaps will be monitored.
[§682.208(g)]

## 11.7.C
## Required Address Skip Tracing Activities

A lender's address skip tracing efforts must include, but are not limited to, the following activities:

- Sending a letter to or making a diligent effort (consisting of one successful contact or two unsuccessful attempts) to contact by telephone each of the following:

  - Each comaker, endorser, relative, reference, individual, and entity (any prior holders of the loan) identified in the borrower's loan file.

  - The schools in the borrower's loan file. This contact should be with the financial aid administrator or other school official who may reasonably be expected to know the borrower's address.

- Other effective commercial skip tracing activities that the lender would conduct in pursuit of information on any other loan in its consumer loan portfolio.

Lenders must perform at least two additional effective commercial skip tracing activities but are encouraged to pursue all available sources of information to obtain a valid address. All skip tracing activities must be completed by the date of default, with no gaps of more than 45 days between activities.
[§682.411(h)]

A lender is not considered to be exercising reasonable care and due diligence if it mails a series of letters or notices to the address at which it has determined that the borrower no longer resides. Although sending a collection letter to the borrower in care of the references—or to the borrower at the reference's address—may be an effective due diligence technique, such an action does not meet the Department's definition of a skip tracing activity. A letter sent to the borrower in care of the reference—or to another person such as a comaker or endorser—may not be substituted for a required attempt to directly contact the borrower by telephone or to satisfy a requirement to send a letter to the borrower.

If a lender obtains a valid address for a borrower on or before the 240th day of delinquency (the 300th day for loans payable in installments that are less frequent than monthly), it must resume the appropriate due diligence activities (see subsections 11.4.A and 11.4.B). If, after determining the borrower's valid address, the lender still does not have a valid telephone number for the borrower, telephone skip tracing should be performed (see section 11.8).
[§682.411(g); §682.411(h)(3)]

## 11.7.D Endorser Address Skip Tracing Requirements

If a lender determines that it does not know the current address for a delinquent endorser, the lender must diligently attempt to locate the endorser through the use of effective commercial skip tracing techniques. This effort must include an inquiry to directory assistance or a comparable service. If the lender determines that the endorser's address is invalid after it mails the final demand letter, skip tracing activities are not required.
[§682.411(n)(3)]

The lender is strongly encouraged to initiate skip tracing activities on the endorser, even if he or she is not delinquent, if the endorser's address becomes invalid during the forbearance period.
[DCL 96-L-186/96-G-287, Q&As #59 and #60]

## 11.7.E Address Skip Tracing Exceptions

The lender is not required to perform skip tracing activities if either of the following criteria applies:

- The lender determines that the address is invalid after it has mailed a timely final demand letter.
- The borrower's loan becomes 241 days or more delinquent (301 days or more delinquent for loans payable in installments less frequently than monthly) as a result of the reversal of a payment, provided a timely final demand letter has previously been mailed.

If the lender learns that a reference on a loan application in the borrower's file does not know the borrower's current whereabouts and does not anticipate contact with the borrower in the future, or is not acquainted with the borrower, the lender must note this information in the loan's servicing history. The lender is not required to contact that reference again in the course of subsequent skip tracing efforts, unless the lender has reason to believe that the earlier response was erroneous or that the reference now has valid or complete borrower information. If a lender determines that a reference should no longer be contacted, but the lender is required to perform telephone skip tracing activities on the same borrower at a later date, the lender is strongly encouraged to contact a reference from another loan application in the borrower's file, if one is available.

During the performance of address skip tracing activities, the lender must continue to make diligent efforts to contact the borrower by telephone. The lender may cease making such calls only if it determines that the borrower's telephone number is invalid, in which case the lender must also perform telephone skip tracing (see section 11.8).

## 11.8 Telephone Skip Tracing

A lender is required to perform telephone skip tracing activities only when the borrower is delinquent for a regularly scheduled payment and the lender becomes aware—even on the last required attempt to make a "diligent effort" to contact the borrower (see subsections 11.4.A and 11.4.B)—that the telephone number on file is invalid. If the lender completes all four required diligent efforts to contact the borrower by telephone and the lender subsequently becomes aware that it does not have a valid telephone number for the borrower, the lender is not required to perform telephone skip tracing activities. A lender is encouraged to perform skip tracing activities at any time a telephone number is found to be invalid. If the lender performs a thorough skip tracing effort before the borrower's account becomes delinquent, it is not required to repeat those activities as a part of due diligence unless a valid telephone number is confirmed and then becomes invalid again.
[DCL 96-L-186/96-G-287, Q&A #61]

If any address skip tracing activities have been performed when the lender becomes aware of an invalid telephone number for the borrower, the lender need not repeat these activities when performing remaining telephone skip tracing. These activities will be considered to have been already completed for telephone skip tracing.

The lender may attempt to contact each reference by letter or telephone. If the telephone number listed for a reference is invalid, the lender must attempt to obtain a valid telephone number for the reference. The lender may satisfy this requirement by calling directory assistance. If a telephone number is obtained from directory assistance, the lender must attempt to call the reference.

If the lender chooses to perform skip tracing during a period of grace, deferment, forbearance, or current repayment, no violations or gaps will be monitored. However, if some—but not all—required skip tracing activities are completed during such periods, remaining skip tracing must be performed if the account becomes delinquent. The next skip tracing activity must occur within 45 days of the borrower's first day of delinquency, and the remaining skip tracing must be completed with no gap greater than 45 days between activities and/or default.

If the lender learns that a reference on the borrower's most recent loan application does not know the borrower's current whereabouts and does not anticipate contact with the borrower in the future, or is not acquainted with the borrower, the lender must note this information in the loan's servicing history. The lender is not required to contact that reference again in the course of subsequent skip tracing efforts unless the lender has reason to believe that the earlier response was erroneous or that the reference now has valid or complete borrower information. If a lender determines that a reference should no longer be contacted, but the lender is required to perform telephone skip tracing activities on the same borrower at a later date, the lender is strongly encouraged to contact a reference from another loan application in the borrower's file, if one is available.

If the lender fulfills the requirements described in the preceding paragraphs but does not succeeded in obtaining the borrower's telephone number, the lender is not required to continue attempts to call the borrower—unless the lender receives updated telephone information before the 211th day of delinquency. Although telephone calls are not specifically required on or after the 121st day of delinquency, if the lender receives updated telephone information, the lender must continue to ensure that no gap of more than 45 days occurs.
[§682.411(g); §682.411(m)(2)]

If the lender obtains a valid telephone number for a borrower, it must resume the diligent efforts to contact the borrower by telephone that are applicable to the level of delinquency of the loan at the time the lender is notified of the borrower's valid telephone number (see subsections 11.4.A and 11.4.B).

During the period the lender is attempting to obtain a valid telephone number for the borrower, the lender must send all required collection letters. The lender may cease sending such letters only if it determines that the borrower's address is invalid, in which case the lender must perform address skip tracing (see section 11.7).

The lender must file a default aversion assistance request at the appropriate delinquency level (see subsection 11.5.A).

## 11.8.A Telephone Skip Tracing Activities

If a lender discovers that it does not have a valid telephone number for a delinquent borrower, the lender must attempt to obtain the borrower's number using all available resources, including the following:

- Inquiring of directory assistance or a comparable service to obtain the borrower's telephone number.
- Sending a letter or making a diligent effort (one contact or two unsuccessful attempts) to contact by telephone each comaker, endorser, reference, relative, or individual identified on the most recent loan application or school certification for that borrower.
- Contacting, either in writing or by telephone, the school identified on the most recent school certification or loan application. This contact should be with the financial aid administrator or other school official who may reasonably be expected to know the borrower's telephone number or address.
[§682.411(m)(1)(iii)]

## 11.8.B Endorser Telephone Skip Tracing Requirements

If a lender determines that it does not know the current telephone number for a delinquent endorser, the lender must diligently attempt to locate the endorser through the use of effective commercial skip tracing techniques. This effort must include an inquiry to directory assistance or a

comparable service. If the lender determines that the endorser's telephone number is incorrect after it sends the final demand letter, skip tracing activities are not required.

## 11.9
## Resuming Loan Servicing after Claim Return

If a guarantor returns a claim to a lender for a reason other than inadequate documentation or loss of guarantee, the lender must resume servicing activities on the loan from the point of delinquency, if any, at which it ceased performing due diligence. The lender must ensure that all due diligence activities are performed accurately and timely, and that no gaps of 46 days or more occur.

The lender may not capitalize the interest accrued between the date the claim was inadvertently filed and the date it was subsequently returned, unless it obtains written authorization from the borrower. Guarantors recommend that a lender attempt to obtain authorization in the form of a forbearance agreement that enables the lender to capitalize all accrued interest and bring the loan current.

# 12 Claim Filing, Discharge, and Forgiveness


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Chapter 12 describes the policies governing filing a claim with a guarantor and requesting loan discharge or loan forgiveness. This chapter discusses the policies related to and the documentation required for default claims, as well as for the various loan discharge types—closed school, death of a borrower or a student for whom a PLUS loan was obtained, false certification, total and permanent disability, and unpaid refund. Bankruptcy claim filing procedures are also covered, as well as a description of the procedures for the Teacher Loan Forgiveness Program and the Loan Demonstration Program for Child Care Providers.

## 12.1 Claim Filing

Lenders must adhere to the following requirements for all claim types. Compliance with these requirements is crucial; failure to comply may result in the cancellation of the loan's guarantee.
[§682.401(b)(19)]

## 12.1.A Claim Filing Requirements

A lender must file each claim according to the policies and deadlines pertaining specifically to the type of claim being filed (for more information on these policies and deadlines, see each specific claim type in sections 12.6 and 12.8). The lender's claim files must be accurate and must include all documentation specified in subsection 12.1.D.

If a lender submits a claim with any required documentation that is missing, incomplete, or inaccurate, the guarantor may attempt to obtain the necessary information from its own system or request the information from the lender. The lender must provide the requested information and, if applicable, refile the claim by the refile deadline (refer to subsection 12.2.A).

▲ Some guarantors offer services that enable lenders to file claims electronically. Lenders may contact individual guarantors for more information on such services. See section 1.6 for contact information.

### Claim Form

The Claim Form is designed to be used by a lender to request claim reimbursement. All loans included on the Claim Form must have the same loan type (i.e., Stafford, PLUS, SLS, or Consolidation), due date, and interest-paid-through date.

The Claim Form and instructions include three separate claim-filing statuses: exceptional performer status, standard review status, and program review status. The claim-filing status the guarantor or Department assigns determines both the method by which the lender's claims will be reviewed and paid and the documentation and information the lender will be required to provide in the claim file.

The claim review statuses are defined as follows:

- The *Exceptional Performer Status* is defined in regulation and assigned by the Department. Lenders achieving this status may file claims using documentation requirements outlined in subsection 12.1.D. Such claims are not subject to additional review for due diligence, conversion to repayment, or timely filing requirements—except as determined to be necessary by the guarantor or the Department as part of the general program oversight responsibility.

- The *Standard Review Status* is applicable to a lender for whom the guarantor has identified no significant servicing deficiencies. Lenders under this status may file claims using documentation requirements as outlined in subsection 12.1.D.

- The *Program Review Status* is applicable to a lender for whom the guarantor has identified significant servicing deficiencies. For lenders assigned this claim filing status, the guarantor may require additional information and documentation to support the claim.

▲ Some guarantors may require a separate claim for subsidized and unsubsidized loans and/or for loans with different interest rates. Lenders may contact individual guarantors for more information. See section 1.6 for contact information.

Some guarantors have alternate requirements regarding the filing of separate claim forms. These requirements are noted in appendix C.

*Claim Form Instructions*

Figure 12-1 will help lenders determine what information must be provided on the Claim Form. Detailed descriptions of these items are located in the instructions on the Claim Form.

▲ Lenders may contact individual guarantors for more information on required data elements associated with the Claim Form. See section 1.6 for contact information.

## Information To Be Provided on the Claim Form — Figure 12-1

| Item Description | Required[1] | If Available[2] |
|---|---|---|
| Type of claim being submitted. | • | |
| Date condition occurred. | • | |
| Borrower's Social Security number (SSN). | • | |
| Borrower's last name, first name, and middle initial. | • | |
| AKA (previous or alternate name used by the borrower). | | • |
| Borrower's last known address. | • | |
| Validity of the borrower's address. | | • |
| Borrower's home telephone number, work number, other number, and validity of the telephone numbers. | | • |
| Name, telephone number, and address of the borrower's place of employment. | | • |
| Loan type for each loan identified on the Claim Form (i.e., SF= subsidized Stafford, including nonsubsidized prior to 10/92; SU = unsubsidized Stafford; PL= PLUS; SL = SLS; CL = Consolidation). | • | |
| Loan ID for each loan identified on the Claim Form (e.g., the loan identifier code, file number, guarantee date, or amount, as indicated by the guarantor). | • | |
| Date the loan sold (as applicable). | • | |
| Date on which the current servicer assumed responsibility for servicing the loan for each loan identified on the Claim Form (as applicable). | • | |
| First disbursement date for each loan identified on the claim request. | • | |
| Interest rate, interest rate type, and the date loan converted (as required by HEA 1986 or HEA 1992 rebate requirements) for each loan identified. | • | |
| Current principal balance (including all reinsured and unreinsured capitalized interest) due for each loan identified on the date of the claim request. | | • |
| Amount of cure interest capitalized and unpaid cure interest not capitalized for each loan claimed. | • | |
| PLUS student's Social Security number (SSN), and name. | • | |
| Full name of the endorser, comaker, and the identifying code (i.e., E=endorser, C=comaker). | • | |
| Endorser, comaker Social Security number (SSN). | •[3] | |
| Endorser, comaker last known complete address and the validity of the address. | •[3] | |
| Endorser, comaker home telephone number and the validity of the number. | •[3] | |
| The out-of-school date. Stafford loans—the date the borrower ended enrollment on at least a half-time basis, before any grace period and the initial conversion of the loan to repayment.<br>PLUS/SLS loans—the date the student or borrower ceased eligibility for an in-school deferment (for immediately deferred loans only).<br>Consolidation loans and PLUS/SLS loans not immediately deferred—the date of the last disbursement. For Consolidation loans, the latest disbursement date on the beginning loan balance should be used if the lender did not establish a new due date when an add-on was accomplished.<br>If the lender did establish a new due date with the add-on loan, the disbursement date for the add-on should be provided. | • | |
| Date the lender was notified of the original out-of-school date. | • | |
| Note whether the original out-of-school date changed after the account entered repayment. | • | |
| Due date of the first monthly payment. | • | |
| Total amount of payments made by or on behalf of the borrower. | • | |
| Number of months due date advanced by payments made by or on behalf of the borrower. | • | |
| Number of regular monthly payments deferred or forborne. | • | |
| Number of months account was out of guarantee. | • | |
| Total number of noncontinuous individual periods of deferment and forbearance. | • | |
| Number of reconversion months. | • | |
| Due date of the first unmet payment of the borrower's delinquency. | • | |
| Date through which interest was last paid. | • | |
| Total original principal value disbursed to the borrower for the loans claimed. | • | |
| Total amount of interest capitalized. | • | |
| Total principal repaid on the borrower's account before and after entering repayment. | • | |
| Total principal value of the borrower's debt which is used to compute the interest claimed. | • | |
| Amount of interest capitalized not eligible for claim payment. | • | |
| Total principal value of the claim. | • | |
| Amount of unpaid cure interest not capitalized. | • | |
| Amount of outstanding reinsured interest claimed and the date through which it was accrued. | • | |
| Amount of any other reinsured costs incurred on the account. | • | |
| Lender's six-digit lender ID assigned by the Department and, as applicable, four digit non-Department suffix. | • | |
| Servicer's six-digit servicer ID assigned by the Department. | •[3] | |
| Claim review status for which the institution currently qualifies (i.e., 1=Exceptional performer status, 2=standard review status, 3=Program review status). | | • |
| Current servicer's name and address. | • | |
| Preparer's name and telephone number. | • | |
| Borrower, endorser, and comaker collection activity codes and dates the activities were performed. | • | |

1 Refers to information the lender must provide on the Claim Form.

2 Refers to information that the lender may or may not have. If the lender has the information, it must be provided on the Claim Form.

3 Refers to information that the lender is required to provide on the Claim Form with loans first disbursed on or after September 1, 1998. For disbursements prior to September 1, 1998, if the lender has the information, it must be provided on the Claim Form.

## 12.1.B
## Claim File Receipt

Guarantors recommend that a lender retain copies of its postal or courier receipts for claims submitted and a list of all claims included in each package. Due to the difficulty in determining the lender's filing date, in absence of evidence to the contrary, a guarantor will monitor timely claim filing activities by permitting a 5-day mail time allowance, based on the date the guarantor receives the claim file.

To obtain confirmation that its claim submission has been received, the lender should include two copies of a transmittal letter with each submission. The guarantor may retain one copy of the transmittal letter and will sign and date the other copy and return it to the lender. This will provide the lender with a quick and simple method of ensuring that all claims are received by the guarantor. At a minimum, the transmittal letter should include the borrower name, Social Security number, and claim amount for each claim file, with a space for the guarantor to sign and date the letter.

## 12.1.C
## Claim Review Process

After a lender submits a claim, the guarantor will determine the validity of the claim by verifying that the lender administered the loan in compliance with federal requirements and the guarantor's policies and procedures.

## 12.1.D
## Claim File Documentation

A lender must include the documentation listed in this subsection with each claim file it submits to a guarantor. If the borrower's file contains more than one of any document, all of the originals—or copies, if the originals are not available—should be included and grouped together. The lender also should group all claim files together by claim type (default, bankruptcy, etc.).

▲ Lenders assigned a *Program Review Status* should contact the guarantor for additional claim documentation information. See section 1.6 for contact information.

### General Documentation Requirements

*Bankruptcy, Death, Default, and Total and Permanent Disability Claims*

Each claim file must contain the following documentation, as applicable. The documents should be arranged in the following order and according to the specified guidelines:

1. *Claim Form*

   Lenders must use the Claim Form (see subsection 12.1.A) or an equivalent electronic format when filing a claim. All data noted in the instructions accompanying the Claim Form must be provided. This data includes an accurate and legible record of the collection history.

   ▲ Contact your guarantor for more information regarding procedures for documenting the requisite 270-day delinquency period. See section 1.6 for contact information.

2. *Application and Promissory Note*

   The lender must submit the application, if a separate loan application was provided to the lender. The lender also must submit the original promissory note, or a true and exact copy of the promissory note, with any signed promissory note addenda. If the guarantor retains the application or promissory note on the lender's behalf, the lender is expected to submit only the imaged copy of the document that it receives from the guarantor or a facsimile of the document.

   In some cases, an indemnification agreement will be accepted if a lender is unable to provide required documentation for claim filing.

   ▲ Lenders may contact individual guarantors for information on the use of indemnification agreements in situations involving certified true and exact copies of promissory notes. See section 1.6 for contact information.

3. *Assignment of a Loan*

   The claim file must contain the holder's original assignment of a loan to the guarantor. This assignment may be incorporated into the text of the claim form or may be stamped, typed, or written directly on the back of the note—or, if the guarantor permits, may be in the form of a letterhead assignment or may be incorporated on the Claim Form. For letterhead assignments (assignment on the lender's letterhead), the lender

must ensure that the borrower's name and Social Security number, loan amount, disbursement date(s), and loan type are provided for each loan being assigned. A lender using a claim form that contains the assignment language need not provide additional information or certifications when filing a claim in order to assign the loan. A lender using an electronic claim filing process should work directly with the guarantor to develop an accurate, timely assignment that corresponds with the claim filed.

If the ownership of the loan was previously assigned to the current holder from another holder, the holder must document all prior assignments, as applicable, and the lender's assignment of the note to the guarantor. Each prior assignment may be stamped, typed, or written directly on the back of the note, or may be in the form of a letterhead assignment or otherwise through an agreement with the guarantor.

4. *Out-of-School Date Information*

   Documentation supporting the lender's out-of-school date must be included as part of the claim documentation *only* if the lender is aware that its out-of-school date is different from the out-of-school date on the guarantor's file.

5. *Cure Documentation*

   If the loan's guarantee is lost and subsequently reinstated, the lender must include in any claim filed subsequent to the reinstatement the curing instrument or a legible copy of the curing instrument. Examples of a curing instrument include a new repayment agreement signed by the borrower or a copy of a payment. In the case of an intensive collection activities (ICA)/location cure, the claim file must include acceptable evidence that the borrower has been located as detailed in section 13.6. For additional information regarding acceptable documentation to show that an ICA/location cure has been completed, see section 13.6.

Guarantors may require lenders to provide additional information or documentation, for example if the borrower disputes the loan amount or a school disputes its cohort default rate.

*Closed School Claims, False Certification Claims, and Unpaid Refund Discharges*

Documentation requirements for closed school and false certification claims are outlined in subsections 12.8.B and 12.8.D, respectively. Documentation requirements for unpaid refund discharges are outlined in subsection 12.8.F.

*Ineligible Borrower Claims*

For an ineligible borrower claim, the lender is required to submit only items *1* through *3* of the preceding list. The lender must also provide the month, day, and year the final demand letter was mailed and reasonable documentation supporting the borrower's ineligibility for the loan, such as an affidavit or letter from the school or a statement from the lender clearly stating the facts and allegations.

### Additional Documentation Requirements

*Bankruptcy Claims*

For a bankruptcy claim, the lender must submit—in addition to the preceding items *1* through *5*—notification of the bankruptcy filing, such as the Notice of the First Meeting of Creditors (the Notice) or other proof of filing directly received from the borrower's attorney, the bankruptcy court, or from another source; a copy of the Proof of Claim filed by the lender, if required; an original assignment of the Proof of Claim, if required; and all other pertinent documents sent to or received from the bankruptcy court.

*Death Claims*

For a death claim, the lender must submit—in addition to the preceding items *1* through *5*—an original or certified copy of the death certificate (see subsection 12.1.A). In the event of an exceptional circumstance and on a case-by-case basis, the lender must submit other reliable documentation approved by the guarantor's CEO.

*Total and Permanent Disability Claims*

For a total and permanent disability claim, the lender must submit—in addition to the preceding items *1* through *5*—a completed ~~Physician's Certification of Borrower's Total and Permanent Disability, a common Temporary or Permanent Total Disability Certification Request Form,~~ Loan Discharge Application: Total and Permanent Disability or other form(s) approved by the Department. ~~(such as the common deferment form) and~~ The lender must also submit a record of any payments received after the date, as certified by the physician, that the borrower became unable to work and earn money.[1]

Some guarantors have additional or alternative requirements regarding claim file documentation. These requirements are noted in appendix C.

1. Policy 706 (Batch 107), approved October 16, 2003

## 12.1.E
## Missing Claim File Documentation

If a lender submits a claim file with any required documentation missing or incomplete, or if the guarantor determines that more information is needed to process the claim, the guarantor may attempt to obtain the necessary documentation or return the claim file to the lender with a request for the missing documentation.

To expedite the claim filing process and avoid the return of claim files to the lender, the guarantor may use a fax machine to request and receive missing information from lenders. The types of documentation that may be transmitted and received by fax include, but are not limited to, the application, promissory note, promissory note assignment, payment history information, deferment or forbearance documentation, and missing collection history. In the case of documentation where an original or true and exact copy may be required (such as the promissory note), the lender may fax a copy of the document so that the guarantor can continue processing the claim. However, the lender must, within the time frame established by the guarantor, forward the original document—or a copy certified as true and exact—to the guarantor to avoid a future claim return.

▲ Lenders may contact individual guarantors for information on faxing claim file documentation. See section 1.6 for contact information.

If a lender is unable to provide requested documentation, the loan may be subject to interest penalties or due diligence violations. If a lender is unable to provide accurate payment information, as required on the Claim Form, the guarantee on the loan may be canceled. However, the lender may attempt to have the loan's guarantee reinstated in many cases by following the applicable cure procedures (see section 13.5).

In some cases, an indemnification agreement will be accepted if a lender is unable to provide required documentation for claim filing.

▲ Lenders may contact individual guarantors for information on the use of indemnification agreements to substitute for documents required in the claim file. See section 1.6 for contact information.

## 12.1.F
## Missing Payment History

A guarantor views a period of missing payment history as a serious due diligence violation that must be cured, regardless of the length of the period. A loss of guarantee on a loan will result during any period for which all, or a portion of, the payment history is missing. For more information on this violation and how it may be cured, see subsections 13.1.C and 13.5.C, respectively.

## 12.2
## Claim Returns

A guarantor will return (send back) a claim to the lender under certain circumstances. The guarantor will notify the lender of the reason for the return. Most claim returns occur for one or more of the following reasons:

- The lender incurs a violation(s) that results in a loss of guarantee on the loan.
- The claim package contains inadequate documentation.
- The borrower is found not to be in a default status.
- The lender is unable to provide sufficient documentation to justify the claim.
- The borrower is actually eligible for a loan when a lender incorrectly determines that he or she is ineligible, or if ineligible, is not ineligible *solely* due to his or her own error (e.g., when a lender receives retroactive information that a student never enrolled although the student actually attended classes).

The guarantor is required to return the claim or discharge request to the lender within a specific number of days after receiving the claim or discharge request, as follows:

- 90 days for a default, total and permanent disability, or closed school claim.
- 45 days for a bankruptcy claim, a death claim, or an unpaid refund discharge.
- 120 days for a false certification claim (90 days to determine the loan's eligibility for discharge, and another 30 days to authorize payment of the claim or

return it to the lender).
[§682.402(d)(6)(ii)(G)(1); §682.402(e)(6)(iv) and (e)(7); §682.402(h)(1)(i); §682.406(a)(8)]

If a claim is returned with a request that the lender resume servicing, the lender must resume servicing the loan at the point of delinquency, if any, that existed on the loan immediately before the claim was filed (see section 11.9).

## 12.2.A Refiling the Returned Claim

A lender may refile a returned claim if it reviews the returned claim, satisfies all requirements for refiling the claim, and determines that the loan is still eligible for claim purchase. The lender's refiling of a claim is subject to the following requirements, as applicable:

- A bankruptcy claim must be refiled within 30 days after the lender's receipt of the returned claim. Failure to refile a bankruptcy claim by the 30th day will result in an interest penalty, provided the late refile has not resulted in the guarantor's missing any court-established deadlines for bankruptcy activity.

- Any other claim must be refiled within 60 days after the lender's receipt of the returned claim. However, claims refiled on the 31st through the 60th day inclusive are subject to certain restrictions, as outlined in section 13.4.
[§682.406(a)(6); DCL 96-L-186/96-G-287, Q&As #36 and #37]

In absence of evidence to the contrary, the lender's receipt date is considered to be the date the guarantor returned the claim plus 5 days (for mailing).

For information on penalties for failure to resubmit returned claims timely, see section 13.4. In the case of a loan filed by a lender or servicer that has been designated an exceptional performer by the Department, no interest limitations are incurred due to untimely refiling of returned claims.
[§682.415(b)(7)(i)]

## 12.2.B Claim Recalls

A lender is strongly encouraged to work with a borrower in any situation in which the borrower shows willingness to repay the debt. In such cases, the lender is strongly encouraged to recall the claim when appropriate. If a lender chooses to recall a claim but the guarantor is unable to stop the claim payment, the lender may recall the claim by remitting an amount equal to the claim payment to the guarantor within 30 days of receiving the claim payment.

A lender is required to recall a claim if any of the following situations occur before the guarantor purchases the claim:

- The loan is brought 210 or fewer days delinquent by the lender's receipt of a payment or by the lender's approval of a forbearance agreement. A forbearance agreement must include the borrower's agreement to repay and, in the case of a discretionary forbearance, should bring the account current (see section 10.18).

- The borrower requests a deferment and submits all necessary documentation, and the documentation indicates that the borrower's eligibility began before the date of default. An administrative forbearance may be granted to cover any period of delinquency occurring before the deferment start date.

- The borrower requests a mandatory forbearance and submits all necessary documentation, and the documentation indicates that the borrower's eligibility began before the date of default.

- The lender becomes aware of the borrower's eligibility for a mandatory administrative forbearance (disaster relief, military mobilization, etc.) and the borrower's eligibility began before the date of default.

- The lender receives information or documentation (such as continuous in-school enrollment verification) that eliminates the default status.

- In the case of a bankruptcy claim, the lender receives notice that the court has declared the borrower's loan nondischargeable or that the bankruptcy case has been dismissed.

Regardless of whether the lender is required to recall the claim or the lender chooses to recall the claim, if a claim is later filed, the lender must provide a complete history from the out-of-school date reported on the Claim Form. (Refer to subsection 12.1.D for documentation requirements.)

On an exception basis, a lender may request a waiver of the recall requirement in a situation where more than one recall has occurred previously.

A lender must immediately resume loan servicing upon receiving a recalled claim. If applicable, the next payment due date must fall within 45 days after the receipt of the recalled claim. Due diligence must be initiated based on the loan's new delinquency status as of the date that servicing resumes. If the loan is past due and the time frame within which the servicing is restarted does not require due diligence (on or after the 241st day of delinquency), the lender must mail, at a minimum, a new final demand letter and permit the borrower 30 days to respond to that letter before refiling the claim.

*Note: The definition of recall (of a claim) is when a lender requests that the guarantor return a claim before the guarantor pays the claim, or the lender remits to the guarantor an amount equal to the claim payment within 30 days of the date on which the lender receives the claim payment.*

## 12.3 Claim Purchase or Discharge Payment

The guarantor is required to purchase an approved claim or discharge request, or return the claim or discharge request to the lender within a specific number of days after receiving the claim or discharge request, as follows:

- 90 days for a default, total and permanent disability, or closed school claim.
- 45 days for a bankruptcy claim, a death claim, or a closed school unpaid refund discharge.
- 30 days from the date the eligibility determination is made for a false certification claim. (A guarantor may take up to 90 days to determine the loan's eligibility for discharge.)
- 45 days from the date the eligibility determination is made for an open school unpaid refund discharge. (A guarantor may take up to 120 days to resolve the unpaid refund with the school. See subsection 12.8.F.)

If the lender fails to provide complete documentation, or if the lender has committed one or more violations that warrant cancellation of the loan's guarantee (for any claim except a closed school or false certification discharge claim), the claim will be returned to the lender unpaid within the applicable time frame noted above. Closed school and false certification discharge claims are not subject to review for servicing violations. [§682.402(d)(6)(ii)(G)(1); §682.402(e)(6)(iv) and (e)(7)(ii); §682.402(h)(1)(i); §682.402(l)(2)(ii); §682.402(n)(1); §682.406(a)(8)]

### 12.3.A Claim Payment Amount

A claim will be paid as follows if a lender has complied with applicable servicing requirements and has not incurred interest penalties or violations sufficient to cause the loss of guarantee on the loan:

- The guarantor will use the principal claimed amount provided by the lender on the Claim Form. This figure, which is the outstanding principal value of the claim, is calculated according to the following formula:

  Principal claimed = Total amount disbursed + Capitalized interest − Principal repaid − Cure interest capitalized

  (See subsections 12.8.E, 12.8.B, and 12.8.D regarding claim payment for total and permanent disability, closed school, and false certification claims.)

- The guarantor will not pay any type of claim for a total amount that is less than $50.00.
- The guarantor will pay 98% of the amount of outstanding principal and eligible interest for each default claim or ineligible borrower claim filed on a loan first disbursed on or after October 1, 1993, or consolidated on or after that date.
- The guarantor will pay 100% of outstanding principal and eligible interest for each of the following types of claims:
  - A default claim filed on a loan that was first disbursed before October 1, 1993.
  - A non-default claim, such as a death, disability, bankruptcy, false certification, or closed school claim.
  - A claim on a loan made under Lender of Last Resort (LLR) provisions.
  - A claim filed by a lender or servicer that has been designated an exceptional performer—except on a loan the lender is required to exclude from this

designation. Claims on qualifying loans made by an exceptional performer are not subject to interest penalties or claim rejection. For more information on being designated an exceptional performer and on maintaining the designation, see subsections 3.9.A and 3.9.B, respectively.

## 12.3.B Amount of Interest Purchased on Eligible Claims

Generally, if a lender has complied with all applicable due diligence and loan servicing requirements, a guarantor will pay 98% or 100%, as applicable, of the outstanding interest owed from the interest-paid-through date through the date the guarantor purchases the claim.

If the lender has committed certain violations of servicing requirements, but the loan is otherwise eligible for claim purchase, the guarantor will:

- Assess an interest penalty according to the type of violation or error that was made.
- Pay 98% or 100%, as applicable, of the interest for which the lender is eligible.

It is possible for a lender to incur more than one type of interest penalty and for more than one interest penalty to be assessed. For example, if a lender services a loan with nonreinsured capitalized interest from a previous period during which the loan lost its guarantee and then commits due diligence violations that result in a penalty, the lender's payment on the loan will not include the nonreinsured capitalized interest or any penalty interest for violations in the current due diligence cycle.
[§682, Appendix D]

For more information on interest penalties, see section 13.3.

▲ Some guarantors may limit the amount of interest paid if the guarantor's agreement with the lender does not cover all of the accrued interest. See section 1.6 for contact information.

## 12.3.C Amount of Interest Purchased on Returned Claims

For a default claim, a guarantor's purchase of interest is not affected by the return of the claim, provided the lender refiles the claim in a timely manner (see subsection 12.2.A). Generally, interest will be purchased from the interest-paid-through date on the loan through the claim purchase date, subject to any other interest penalties or limitations that apply.

After calculating the amount of interest for which the lender is eligible, the guarantor will pay 98% of that interest for loans disbursed on or after October 1, 1993—unless the loan was made under Lender of Last Resort provisions or the claim was filed by a lender or servicer designated as an exceptional performer (in which case the guarantor will pay 100% of the amount of interest for which the lender is eligible).
[§682.406(a)(6)]

If a death, disability, closed school, false certification, or bankruptcy claim is returned due to inadequate documentation, the guarantor's purchase of interest—if the lender does not incur any penalties for due diligence violations (as applicable, see section 13.3) or for failure to meet timely filing or refiling deadlines—is as follows:

- The interest that accrues from the lender's current interest-paid-through date to the date the lender receives notification of the borrower's condition.
- The interest that accrues during the claim preparation period through the date the lender files the claim with the guarantor, not to exceed the original filing deadlines outlined in section 13.4.
- The interest that accrues from the date the lender receives a claim returned by the guarantor for additional documentation through the date the lender refiles the claim, provided that the period does not exceed 30 days following the return of the claim to the lender by the guarantor as outlined in section 13.4.
- The interest that accrues from the lender's timely claim filing or refiling date through the date the guarantor pays or returns the claim to the lender.
[§682.402(h)(3)(ii); DCL 96-L-186/96-G-287, Q&A #34]

## 12.3.D Amount of Interest Purchased on Cured Loans

In the case of a claim on a loan for which a cure procedure was performed, interest will be purchased as follows—depending on whether performance of the cure procedure resulted in the reinstatement of the guarantee on the loan:

- If the violation was cured and the guarantee was reinstated based on the receipt of one full payment or a new repayment agreement signed by the borrower, interest will be purchased up to the date of the earliest unexcused violation and from the reinstatement date (the date the loan was cured) through the date the guarantor purchases the claim, subject to any further interest penalties or limitations that apply.

- If the lender completed the intensive collection activities (ICA)/location cure (see section 13.6) and did not receive a full payment or new repayment agreement signed by the borrower, the guarantee is not reinstated and interest will be purchased only from the interest-paid-through date (IPT date) through the earliest unexcused violation date. The guarantor will honor reinsurance claims on the outstanding principal balance of those loans along with unpaid interest minus any applicable interest penalties.

Any unpaid interest accruing after the date of the earliest unexcused violation, after the date of the last payment received before the cure is accomplished, and before the date of reinstatement of the guarantee will not be purchased. The lender may capitalize the interest that accrued from the date of the earliest unexcused violation through the reinstatement date (for the period of noninsurance). However, the lender will not be reimbursed for this amount as part of any future claim payment. It is the lender's responsibility to ensure that the appropriate adjustment is made (for example, adjusting the IPT date forward to deduct such interest before submitting a request for claim payment). If it appears that the lender has not deducted interest capitalized for the period of noninsurance, the guarantor will either return the claim for correction or make any necessary adjustments on the lender's behalf.
[§682, Appendix D]

## 12.3.E Receipt of Payments after Claim Payment

A lender must forward to the guarantor any borrower payment received on a loan for which a claim has been purchased by the guarantor. The payment must be forwarded within 30 days of the lender's receipt of the payment.

## 12.4 Requests for Increase in Claim Payment

If a lender receives a claim payment that the lender believes is less than it should be, the lender should determine whether a claim payment increase is warranted by doing one or more of the following:

- Reviewing the claims approved report to see whether there is an explanation of why the claim was purchased with an interest penalty (for example, as a result of due diligence violations occurring during the delinquency cycle).

- Ensuring that the amount of interest does not exceed the maximum allowed by the guarantor (see subsection 12.3.B).

- Ensuring that the amount of the claim reduction is not due to the loan's eligibility for 98% insurance.

- Determining whether any error was made on the original claim request (for example, if the interest-paid-through date the lender reported was inaccurate).

If, after making the preceding determinations, the lender believes that a claim payment increase is warranted, it must submit a request for increase in claim payment within 90 days of receiving the claim payment. To facilitate processing, the lender also should provide complete documentation that supports the basis for the claim payment increase request. Examples of such documentation include the servicing history, interest calculation tape, or relevant documentation omitted from the claim file in error.

The guarantor will not pay a supplemental claim for a total amount less than $50. That amount may include principal, interest, or both.

▲ Lenders may contact individual guarantors for more information concerning the submission procedures for supplemental claims. See section 1.6 for contact information.

Some guarantors may have different filing deadlines and/or minimum requested increase amounts. These exceptions are noted in appendix C.

### Supplemental Claim Form

The Supplemental Claim Form is designed to be used by a lender to request a claim payment increase within 90 days of receiving the claim payment. The guarantor will not pay a supplemental claim for a total amount of less than $50.

*Supplemental Claim Form Instructions*

Figure 12-2 will help lenders determine what information must be provided on the Supplemental Claim Form. Detailed descriptions of these items are located in the instructions on the Supplemental Claim Form.

▲ Lenders may contact individual guarantors for more information on required data elements associated with the Supplemental Claim Form. See section 1.6 for contact information.

## Information To Be Provided on the Supplemental Claim Form — Figure 12-2

| Item Description | Required[1] | If Available[2] |
|---|---|---|
| Borrower's Social Security number (SSN). | • | |
| Borrower's last name, first name, and middle initial. | • | |
| Loan type for each loan listed (i.e., SF = subsidized Stafford, including non-subsidized disbursed prior to 10/92; SU = unsubsidized Stafford; PL = PLUS; SL = SLS; CL = Consolidation). | • | |
| Loan ID for each loan listed (e.g., the loan identifier code, file number, guarantee date, or amount, as indicated by the guarantor). | • | |
| Interest rate and interest rate type for each loan listed. | • | |
| Amount of principal paid. | | • |
| Amount of interest paid. | | • |
| Number of days of interest paid. | | • |
| Claim payment receipt date. | • | |
| Interest paid through date at claim submission. | • | |
| Amount of principal increase requested. | • | |
| Amount of interest increase requested. | • | |
| Total increase requested. | • | |
| Reason for increase request. | • | |
| Lender's six-digit lender ID assigned by the Department and, as applicable, four-digit non-department suffix. | • | |
| Servicer's six-digit servicer ID assigned by the Department. | •[3] | |
| Current servicer's name and address. | • | |
| Preparer's name and telephone number. | • | |

1 Refers to information the lender must provide on the Supplemental Claim Form.

2 Refers to information that the lender may or may not have. If the lender has the information, it must be provided on the Supplemental Claim Form.

3 Refers to information that the lender is required to provide on the Supplemental Claim Form with loans first disbursed on or after September 1, 1998. For disbursements prior to September 1, 1998, if the lender has the information, it must be provided on the Supplemental Claim Form.

## 12.5
## Claim Repurchase

If a lender discovers that a loan was declared to be in default due to circumstances beyond the control of the lender and borrower (rather than the borrower's action or inaction), guarantors strongly recommend that the lender repurchase the claim. Repurchases may be subject to guarantor approval.

A lender may be required to repurchase a claim if the guarantor becomes aware that the claim was inadvertently purchased due to circumstances such as the following:

- The lender incurred a servicing error (such as posting the borrower's payments to the wrong loan) or regulatory violation resulting in a loss of guarantee on the loan.
- New information is obtained demonstrating that the borrower currently should not be delinquent or in default.
- The school failed to verify the student's enrollment status.
- A delay occurred in the processing of a deferment that begins prior to the date of default.
- The loan is found to be legally unenforceable.
- Other reasons as determined by the guarantor.

A lender is required to repurchase a loan that was paid as a bankruptcy claim if the bankruptcy is subsequently dismissed by the court or, as a result of the hearing, the loan is considered nondischargeable and the borrower is responsible for repayment of the loan. If the guarantor purchases a default claim and later receives documentation that the date of the bankruptcy petition preceded the date of default (the 270th day of delinquency), the lender will be required to repurchase the loan unless the loan is determined by the court to be dischargeable in the bankruptcy action. The repurchase requirement does not apply in the case of a loan that is filed as a default claim and the date of default precedes the petition date. [§682.402(j)]

If a claim is paid by the guarantor and the loan is later ruled by a court to be unenforceable against the borrower solely due to the lack of evidence of a Confirmation or Notification process or processes, the lender must repurchase the claim from the guarantor and refund to the Department any interest benefits and special allowance payments collected by the lender on the loan. [§682.406(c)]

A guarantor will notify the lender in writing of the guarantor's recommendation or requirement to repurchase a claim. If the lender disagrees with any aspect of the recommendation or requirement to repurchase, the lender should notify the guarantor and submit any new pertinent information on the loan. In the absence of a valid appeal, a guarantor-initiated repurchase must be finalized by the lender within 60 days of the lender's receipt of the request.

A lender may choose to initiate a repurchase at any time by contacting the guarantor. After the guarantor receives the lender's repurchase request and any supporting documentation, the guarantor will contact the lender to advise whether the request has been approved or denied. If the request is approved, the lender will be quoted the repurchase amount due. The guarantor may elect to waive some or all of the accrued interest and collection costs during the post claim period.

The lender may capitalize outstanding interest according to provisions in sections 9.10 and 10.19.

If a lender chooses to recall a claim but the guarantor is unable to stop the claim payment, the lender may recall the claim by remitting an amount equal to the claim payment to the guarantor within 30 days of receiving the claim payment. If a claim is later filed, the lender must provide a complete history from the out-of-school date reported on the Claim Form. (Refer to subsection 12.1.D for documentation requirements.)

### Repurchase of Defaulted Loans

Upon receiving a lender's payment for the quoted repurchase amount, the guarantor will process the repurchase and provide the lender with appropriate file documentation and the original promissory note. Any payments received from the borrower that affect the repurchase quote will be applied as adjustments to the purchase amount or will be refunded to the lender.

*Note: The definition of repurchase (of a claim) is when a lender purchases from the guarantor a loan on which a claim was filed and paid if that purchase occurs more than 30 days after the lender receives the claim payment.*

#### Conversion to Repayment

A lender that repurchases a loan must immediately establish a repayment schedule with the borrower that meets the requirements applicable to other FFELP loans of the same type (see subsection 9.5.D). The schedule must be sent to the borrower no more than 60 days and the first payment due date must be no more than 75 days after the lender considers the repurchase to be complete (e.g., the date the repurchase check is sent to the guarantor, the date the lender receives the loan file from the guarantor, or the date the lender receives collateral from the guarantor).

## 12.6 Default

FFELP agreements between lenders and guarantors establish that the guarantor will reimburse the lender for all or part of the loan balance for a loan on which a borrower defaults.

## 12.6.A Default Claims

In order to collect insurance on a defaulted loan, the lender must file a timely and accurate default claim with the guarantor.

#### Payments after Default

If the lender receives a payment from or on behalf of the borrower before the date it files a default claim, the payment must be accepted and applied to the loan to reduce the delinquency or eliminate the default.

If the lender receives a payment after a default claim has been filed but before the claim has been purchased, the lender must determine whether the claim should be recalled (see subsection 12.2.B). If the claim is not recalled, the payment should be held until the claim payment is received and then forwarded to the guarantor within 30 days of receiving the claim payment.

Some guarantors require a lender to apply a payment upon receipt in the preceding circumstances. These requirements are noted in appendix C.

A payment received after a default claim has been purchased must be forwarded to the guarantor for processing within 30 days of receipt. The payment should be clearly marked as a borrower payment received before claim payment.

#### Interest-Only Claims

Lenders may accrue or capitalize outstanding interest on FFELP loans whenever the borrower fails to fulfill his or her agreement to make interest-only payments during a period of deferment or forbearance. A lender may not file a claim solely on the basis of delinquent interest-only payments—except when those payments are the result of an income-sensitive repayment schedule or a reduced-payment forbearance. For more information regarding collection activities on reduced-payment forbearance payments, see section 11.4.
[§682.202(b); DCL 90-G-175]

#### Forwarding Documentation of Other Claim Types

To ensure that another claim type is not inadvertently purchased as a default claim, the lender must forward to the guarantor—within 30 days of receipt—any acceptable notification (including all supporting documentation) that demonstrates that any of the following situations have occurred:

- The borrower died or the student for whom a PLUS loan was obtained died.
- The borrower became totally and permanently disabled.
- The borrower filed any type of bankruptcy.
- The borrower should have been declared ineligible for the loan.
- The borrower was entitled to loan discharge due to the school closing or false certification.

The guarantor may alter the original claim type to reflect the new status, if applicable.

If a lender receives information indicating that a borrower has filed a bankruptcy petition on the loan, the lender should follow the additional instructions outlined in subsection 12.8.A.

#### Filing Time Frames for Default Claims

A lender is strongly encouraged to file a default claim after the 300th day of delinquency and may not file a default claim before the 270th day of delinquency for loans with monthly installments. For a loan with installments due less frequently than monthly (e.g., quarterly), a lender is strongly encouraged to file a default claim after the 360th day of delinquency and may not file a default claim before the 330th day of delinquency.

The last day a lender may file a default claim and remain within the timely filing guidelines for a loan with monthly installments is the 360th day of delinquency. For a delinquent account scheduled for repayment in installments less frequent than monthly (e.g., quarterly), the lender must file the default claim by the 420th day of delinquency. Failure to submit a default claim by the 360th day, or 420th day if applicable, will result in a timely filing violation and the cancellation of the guarantee on the loan. [§682.406(a)(5)]

A lender may attempt to cure a timely filing violation; if successful, the lender is entitled to resubmit the claim (see subsection 13.5.D). However, the claim will be subject to an interest penalty, and the lender will be required to repay all interest benefits and special allowance payments for amounts received or otherwise payable after the 330th day of delinquency.

## 12.6.B Ineligible Borrower Claims

A loan for which the borrower is ineligible due to the borrower's or student's error (see subsection 5.14.A) is treated as a default if the borrower fails to repay the full amount due within 30 days after the final demand letter is mailed.

A lender must file an ineligible borrower claim for the entire outstanding loan amount on or after the 30th day, and no later than the 120th day, after the date it mailed the final demand letter.

Because a loan for which a borrower is determined to be ineligible loses eligibility for interest benefits, the amount of interest refunded to the Department becomes borrower accrued interest and may be capitalized. For claim payment purposes, this interest is treated like any other delinquent interest.
[§682.412]

For information on claim documentation, see subsection 12.1.D.

If an ineligible borrower claim is filed after 120 days from the date a timely final demand letter is mailed, the guarantor will purchase the claim with an interest penalty.

## 12.7 Rehabilitation of Defaulted Loans

A borrower may rehabilitate a defaulted loan by making satisfactory repayment arrangements with the guarantor or a collection agency acting on its behalf. A borrower who receives loan funds for which he or she is ineligible due solely to his or her error may not rehabilitate the ineligible funds or otherwise have his or her Title IV eligibility reinstated until the ineligible funds are repaid in full. A borrower with a defaulted loan on which a judgment has been obtained may not include that loan in a rehabilitation agreement.

To be eligible for rehabilitation, a borrower must make twelve consecutive, on-time (received within 15 days of the due date) full monthly payments to the guarantor or its contracted vendor. Payments must be made voluntarily by the borrower and must be equal to or greater than the amount determined to be reasonable and affordable. Payments obtained by state offsets or federal Treasury offsets, wage garnishment, trustee payments, or income or asset execution will not satisfy requirements for rehabilitation.

The twelve payments must be received during the 12 months immediately preceding the rehabilitation of the defaulted loan. Payments will be considered voluntary if made directly by the borrower. A lump sum prepayment of future installments cannot be used to satisfy the twelve consecutive payment requirement. If the borrower fails to send a payment on time during any of the 12 months during which payments are required for rehabilitation, he or she must begin the entire 12-month cycle again. A new 12-month cycle will begin from the time a new, on-time, voluntary, reasonable and affordable payment is received—regardless of any prepayments of future installments the borrower may have made.

The guarantor will make the determination of what constitutes a reasonable and affordable payment based on each borrower's financial circumstances. Factors to be considered include the borrower's monthly income (and that of his or her spouse, if applicable), the monthly expenses of the borrower and any spouse or dependents, and the unpaid balance on all FFELP loans held by other holders. If the borrower's reasonable and affordable payment is determined to be less than $50 or the amount of the accruing interest on the borrower's loan(s), the guarantor will document the basis for the determination and retain it in the borrower's file, which will be forwarded to the purchasing lender.

A guarantor will assist a borrower in securing the purchase of each defaulted loan by an eligible lender only after:

- The borrower satisfies his or her obligation to make 12 monthly payments, as prescribed above.
- The borrower authorizes the guarantor to capitalize collections costs.
- The borrower requests assistance in obtaining a rehabilitation repurchase.
- The guarantor determines that the borrower is a good candidate for rehabilitation. A borrower may not be considered a good candidate for rehabilitation if he or she will be required to make monthly payments after the rehabilitation that are considerably higher than the amount determined to be reasonable and affordable for the borrower.

If the guarantor is unable to secure a lender, the borrower will be responsible for obtaining an eligible lender to purchase his or her defaulted loan(s).

The guarantor or its contracted vendor acting on its behalf will notify the borrower of repayment terms, including what has been determined to be the reasonable and affordable payment amount. If the borrower's financial circumstances change after the determination, the borrower may request that the repayment terms be adjusted. The borrower must include documentation substantiating his or her request for a recalculation of the reasonable and affordable payment amount previously established.

Upon purchase of a loan by an eligible lender, the guarantor will report to national credit bureaus that the default status is to be removed from the borrower's credit history, and the loan will be considered rehabilitated.
[§682.405(a); §682.405(b)(2)]

A lender that purchases a rehabilitated loan must immediately establish a repayment schedule with the borrower that meets the requirements applicable to other FFELP loans of the same type. The schedule must be sent to the borrower no more than 60 days, and the first payment due date must be no more than 75 days after the lender considers the repurchase to be complete (e.g., the date the repurchase check is sent to the guarantor, the date the lender receives the loan file from the guarantor, or the date the lender receives collateral from the guarantor). The lender must consider the first payment made under the 12 consecutive monthly payments required for rehabilitation as the first payment under the applicable maximum repayment period for the loan type (for example, a borrower would have a maximum repayment period of 9 years remaining on a loan with a 10-year repayment period, and a Consolidation loan borrower with a balance greater than $60,000 would have a maximum repayment period of 29 years, because the 12 consecutive monthly payments are considered the first year of a repayment term). The initial repayment schedule must provide for monthly payments that are greater than or equal to the average of the 12 consecutive monthly payments received by the guarantor.

The guarantor will provide payment history information (such as payment amounts and dates when the loan was in a default status) with the loan documentation sent to the purchasing lender to assist in the accurate conversion to repayment. A rehabilitated loan retains the same interest rate and deferment provisions that were applicable when the loan was first disbursed and repayment terms and all other benefits applicable to other FFELP loans made under the same loan type.
[§682.405]

The borrower regains eligibility for deferment only to the extent that he or she has not already exhausted those deferment privileges before his or her initial default. For example, a borrower who was initially eligible for 24 months of unemployment deferment, and who used 12 months of that eligibility before his or her default, would be eligible to defer the rehabilitated loan for only 12 months due to any future unemployed status.

## 12.8 Discharge

A loan discharge is a release of a borrower's obligation to repay his or her loan, either in whole or in part. There are several circumstances under which a borrower's loan obligation may be discharged. Each of these circumstances and its corresponding borrower eligibility criteria is outlined in this section.

In certain circumstances, a lender that discharges all or a portion of an eligible borrower's loan may be reimbursed by the guarantor by filing a claim. For information about claim filing procedures, see section 12.1.

### Comakers

If a PLUS loan was obtained by two parents as comakers or a Consolidation loan was obtained by a married couple and one of the borrowers is eligible for discharge, the other borrower remains obligated to repay the loan. However, if

each comaker on a loan meets the eligibility criteria for a discharge—under the same type or a different discharge type—discharge can be granted on the loan.

### Credit Bureau Reporting

As required under subsection 3.5.C, the lender must report to at least one national credit bureau the date a borrower's loan is discharged due to the disability, bankruptcy, or the death of the borrower or dependent student, as applicable. For closed school and false certification claims, the current loan holder must, within 30 days of the date the lender is notified that a loan is discharged, notify all credit reporting agencies to which any adverse credit has been reported that the loan obligation has been discharged and that the adverse credit information must be corrected.
[§682.208(b)]

## 12.8.A Bankruptcy

The bankruptcy discharge is intended for certain borrowers who have filed a petition for relief under the Bankruptcy Code. Bankruptcy is a judicial action to halt the normal collection of debts against the petitioner, and cause those debts to be satisfied at the direction of the court. Generally, student loans may not be discharged due to bankruptcy. However, if a borrower qualifies for the bankruptcy discharge, the loan holder is reimbursed for the unpaid principal and interest on the borrower's loan(s), but the borrower is not reimbursed for any payments made on the loan(s) prior to discharge.

A lender may be advised of a borrower's bankruptcy by the borrower, but must make its determination to file a claim based on the receipt of the Notice of the First Meeting of Creditors (the Notice) or other proof of filing from the borrower's attorney or the bankruptcy court (either directly from the court or from another source).
[§682.402(f)(3)]

If a borrower defaults on a loan and then files a bankruptcy petition, the lender must file a default claim on the loan no later than the 360th day of delinquency. The lender must clearly note its receipt of bankruptcy documentation in the claim file. Before filing the default claim, the lender—as holder of the loan—is responsible for performing any and all bankruptcy activity required by the court and responding to all bankruptcy correspondence.

If the bankruptcy action requires the lender to file a claim with the guarantor, the lender must file a bankruptcy claim within the applicable timely filing deadlines defined in this subsection. The lender must file the claim for the balance outstanding on the date that the lender receives the bankruptcy notice, less any funds returned by the school prior to the date on which the claim is filed. (If a lender holds loans that are not yet disbursed or are partially disbursed at the time the lender is notified of the borrower's bankruptcy filing, see subsection 7.7.I for processing information related to subsequent disbursements.) If, after claim filing, the lender receives funds returned from the school, the lender must credit those amounts to the borrower's loan and notify the guarantor of the revised claim amount.

Some guarantors have different requirements regarding the treatment of disbursements when a lender is notified of a borrower's filing for bankruptcy. These requirements are noted in appendix C.

### Suspending Collection

If the lender is notified that a borrower has filed a petition for relief in bankruptcy, the lender must immediately suspend any collection efforts against the borrower that are outside the bankruptcy proceeding. If the borrower filed a Chapter 12 or 13 bankruptcy, the lender must also suspend any collection efforts against any comaker or endorser. Suspension of collection efforts against any comaker or endorser is optional if the borrower filed a Chapter 7 or 11 bankruptcy.

If the lender is notified that a comaker or endorser has filed a petition for relief in bankruptcy, the lender must immediately suspend any collection efforts against the comaker or endorser that are outside the bankruptcy proceeding. If the comaker or endorser filed a Chapter 12 or 13 bankruptcy, the lender must also suspend any collection efforts against the borrower and any other parties to the note. Suspension of collection activities against the borrower and any other parties to the note is optional if the comaker or endorser filed a Chapter 7 or 11 bankruptcy.

### Filing a Proof of Claim

A lender must file a proof of claim with the bankruptcy court no later than 30 days after it receives the Notice—unless the Notice specifically states that a proof of claim is not required. If required, the proof of claim must be filed, even if a default claim has already been filed on the loan and the lender has not yet received payment from the guarantor. If a proof of claim is required, the lender must immediately forward a copy of the bankruptcy notification, proof of claim, and an original assignment of the proof of claim to the guarantor.
[§682.402(f)(4)]

▲ Some guarantors may file a proof of claim on the lender's behalf. Lenders may contact individual guarantors for more information. See section 1.6 for contact information.

If a proof of claim is not required by the court, the lender should ensure that it is on the bankruptcy court's mailing list. This may be accomplished through either a telephone call or letter to the bankruptcy court. Doing so will ensure that the current holder receives all notices regarding the borrower's bankruptcy filing.

All notices received regarding the borrower's bankruptcy filing should be forwarded to the guarantor, within 30 days of receipt, if a claim is pending or has been paid.

#### Loans Eligible for Bankruptcy Claim Payment

A lender must file a bankruptcy claim if any one of the following conditions exist:

- A borrower files a Chapter 12 or 13 bankruptcy.
- A Chapter 7 or 11 bankruptcy is converted to a Chapter 12 or 13 bankruptcy.
- A borrower files a petition for undue hardship (or adversary complaint) under a Chapter 7 or 11 bankruptcy.
  [§682.402(f)(5)(i)(A) and (C); 971 PL 105-244]

In all cases, the guarantor will review the loan's servicing history to ensure that servicing requirements have been fulfilled before the date the lender was notified of the borrower's petition for bankruptcy.

If a loan is made to two borrowers as comakers, the loan is dischargeable as a bankruptcy claim only if both borrowers have filed bankruptcy actions under which federal educational loans are dischargeable or if one borrower has done so and the other borrower has his or her obligation to repay the loan discharged on another basis (such as death or total and permanent disability). If only one comaker has his or her obligation to repay the loan discharged, the other comaker becomes obligated for the repayment of the remaining loan balance. However, the lender must follow bankruptcy, statutory, and case law as it pertains to comaker discharge.

When preparing a claim, the lender must file a proof of claim with the bankruptcy court for all "asset" cases (as instructed on the Notice) and include a copy of the proof of claim and an original assignment of the proof of claim in the claim file.

#### Loans Not Eligible for Bankruptcy Claim Payment

If a loan is not eligible for claim payment, the lender must hold the loan and cease collection activities until the bankruptcy action concludes. When the action concludes and the lender is notified that the loan was deemed nondischargeable, that the bankruptcy case was dismissed, or that a discharge was reversed, the lender must treat the loan as though it were in forbearance. Any accrued interest should be capitalized from the date of the bankruptcy petition to the date the lender received notification that the bankruptcy action was concluded. The lender also may include in the administrative forbearance any period before the date of the bankruptcy petition for which the borrower was delinquent.
[§682.402(f)(5)(ii)]

The lender must return the account to repayment and schedule the next payment due date to occur no later than 60 days after receiving the notification that the bankruptcy action has concluded, if the account should be in repayment at that time. If the loan was in any other status at the time the bankruptcy notification was received, the lender should ascertain the correct status for the loan at the conclusion of the bankruptcy action and place the loan into the applicable status.

#### Timely Filing Deadlines for Bankruptcy Claims

In the absence of information to the contrary (such as a date stamp on the Notice), a guarantor will assume that any notification provided by a bankruptcy court was received by the lender on the 5th day following the court issuance date marked on the Notice. A lender is strongly encouraged to date-stamp all bankruptcy notifications immediately upon receipt, to provide clear evidence of the receipt date. Other acceptable proof of receipt includes a letter from the lender certifying a specific receipt date or documentation in the borrower's file or the servicing history of the loan.
[§682.402(f)]

A bankruptcy claim and proof of claim, if applicable, must be filed with all required documents within 30 days after the lender's receipt of the Notice of the First Meeting of Creditors or other confirmation issued by the debtor's attorney or the bankruptcy court or within 30 days after the date the guarantor provides the lender with bankruptcy information and instructs the lender to file a bankruptcy claim, whichever is earlier. For more information on documentation to be filed with a bankruptcy claim, see subsection 12.1.D.
[§682.402(g)(2)(iv)(A)]

If a borrower files a petition for undue hardship (or adversary complaint), the lender must file a claim within 15 days of receiving the petition or within 15 days of the date the guarantor provides the lender with the bankruptcy information and instructs the lender to file a claim, whichever is earlier. If the lender receives an extension of time from the bankruptcy court for filing a response to the undue hardship petition (adversary complaint), the claim must be filed no less than 25 days before the expiration of that extended period or within 15 days of the date the guarantor provides the lender with the bankruptcy information and instructs the lender to file a claim, whichever is later.
[§682.402(g)(2)(iv)(B)]

Failure to submit a dischargeable bankruptcy claim by the end of the claim filing deadline will result in permanent cancellation of the guarantee on the loan—unless the lender can demonstrate that the bankruptcy action has been concluded and that the loan was not discharged or that the bankruptcy action in which the loan was originally discharged has been reversed. If this is the case, the lender need not cure the violation but must return the loan to the appropriate status and resume servicing activities. If the loan was 270 days or more delinquent at the time the borrower filed bankruptcy, the lender may treat the loan as a default. The lender may file a default claim within 90 days of being notified of the bankruptcy action's conclusion or reversal or by the 360th day of delinquency, whichever is earlier. The claim, if purchased, will be subject to an interest penalty, and the lender will be required to repay all interest benefits and special allowance payments for amounts received or otherwise payable from the date on which the loan should have been filed as a bankruptcy claim through the date on which the lender received notice that the loan was not dischargeable or that the discharge had been reversed.

If a lender incurred due diligence violations or timely filing violations that resulted in cancellation of the guarantee, and those violations remained uncured as of the date it received notification of the bankruptcy filing, the lender may not file a bankruptcy claim. These violations cannot be cured—unless the debt is not discharged at the conclusion of the bankruptcy action, in which case the lender may attempt to cure the violations after the loan is returned to a repayment status.

#### Dismissal or Reversal of Bankruptcy Action

After a guarantor purchases a bankruptcy claim, it may diligently contest the discharge of the loan with the bankruptcy court. Generally, a loan will be considered dischargeable only if the borrower has filed a successful petition for undue hardship (or adversary complaint). The guarantor must, under federal regulations, require a lender to repurchase a loan that was filed as a bankruptcy claim if the bankruptcy is subsequently dismissed by the court or if the loan is determined to be nondischargeable. The loan may not necessarily be sold to the lender that filed the bankruptcy claim.
[§682.402(j)]

A lender will be notified if it is required to repurchase a loan. If a lender is required to repurchase a loan for the preceding reason, the loan should be treated as though it were in an administrative forbearance from the date the borrower filed bankruptcy to the date the repurchase occurred and the lender received the supporting documentation from the guarantor. The lender may include in the administrative forbearance any period before the date of the bankruptcy petition for which the borrower was delinquent. For more information on claim repurchase, see section 12.5.
[§682.402(j)]

## 12.8.B Closed School

The Higher Education Act provides relief for borrowers who are unable to complete their programs of study due to the closing of a school. Borrowers who meet the criteria outlined in this subsection may be eligible to have their loans discharged.

In most cases, to qualify for a closed school loan discharge, a borrower must complete, certify, and submit to his or her lender or guarantor the closed school loan discharge form approved by the Department. This form, hereafter referred to as the "request," includes the following statements:

- The borrower (or student for whom a parent obtained a PLUS loan) received any part of the proceeds of a FFELP loan on or after January 1, 1986, to attend a school that later closed.

- The borrower (or student) did not complete the program of study at the school for which the loan was obtained because the school closed while the student was enrolled or on an approved leave of absence, or the student withdrew within 90 days of the school's closing.

- The borrower (or student) did not complete—and is not currently in the process of completing—the same or a similar program of study through a teach-out at another school, by transferring academic credits or hours

earned at the closed school to another school, or by benefitting by any other means from the training provided by the closed school.

- The borrower (or student) agrees to provide, upon request, other reasonably available documentation that demonstrates the borrower's eligibility for discharge.

- The borrower (or student) agrees to cooperate with the Department or its designee in any enforcement action or attempt to recover discharged loan amounts, and to transfer and relinquish to the Department any right to a refund on a discharged loan.

- The borrower certifies under penalty of perjury that all of the information provided by the borrower in the request and in any accompanying documents is true and accurate.

The request also includes a statement indicating whether the borrower (or student) has made a claim with respect to the school's closing with any third party, such as the holder of a performance bond or tuition recovery program. If so, the amount of any payment received by the borrower (or student) or credited to the loan obligation must be noted in the request.

In some cases, a borrower may qualify for a closed school loan discharge without submitting a request if the borrower received a closed school discharge on a loan under the Federal Perkins Loan Program or the Federal Direct Loan Program for the same program of study at the same school. Also, the borrower may not be required to submit a request if the Department or the guarantor, with the Department's permission, determines that the borrower qualifies for a discharge based on information in the Department's or guarantor's possession.
[§682.402(d)(8)]

▲ Lenders may contact individual guarantors for more information. See section 1.6 for contact information.

**Federal Guidelines**

Lenders should note the following regarding closed school loan discharge:

- A borrower of a FFELP loan that was partially discharged under the closed school provisions outlined in DCL 89-G-159 is eligible to have the remaining balance of his or her loan discharged without meeting the requirements listed above.

- If a loan discharge is approved, the discharge cancels the obligation of the borrower to repay the outstanding principal, accrued interest, collection costs, and late fees on all eligible loans made for the student's enrollment in the program of study being pursued when the school closed. It also qualifies the borrower for reimbursement of any amount paid voluntarily or through forced collection on the amount discharged.

  The lender or guarantor must ensure that a discharge is reported to credit bureaus such that the adverse credit history associated with the amount discharged is removed. For information on credit bureau reporting, see section 12.8.
  [§682.402(d)(2)]

- Loan discharge is not restricted to loans made for attendance at an eligible school that closed. If an ineligible school or branch certified FFELP loan applications under an eligible school identification number, and the ineligible school or branch subsequently closed, those loans also may qualify for discharge.

- A borrower is not eligible for loan discharge if the student's program of study was terminated by the school, but the school did not close at that time. An entire school or location must close for a borrower to be eligible for loan discharge.

- A legally enforceable loan that has lost reinsurance as a result of a due diligence violation is eligible for discharge and claim payment if the borrower meets all discharge requirements. In processing such claims, a guarantor will not assess penalties for the due diligence violations.

In some cases, a request will be provided by the guarantor and sent to the lender. The lender will then forward the request to the borrower according to the following procedures. In other cases, a guarantor may mail the request directly to a potentially eligible borrower and notify the lender of this action. In such cases, the guarantor also may have the borrower return the request directly to the guarantor for a determination of eligibility. The guarantor will then notify the lender of the borrower's eligibility or ineligibility for discharge of the loan(s).

### Identifying Potentially Eligible Borrowers

In some cases, a borrower's potential eligibility will be identified before a school's closing has been officially confirmed by the Department. A guarantor or lender may receive information indicating that a school has closed and that a borrower or student who attended the school may be eligible for a closed school loan discharge. ~~If the lender is notified of such information by a guarantor or other reliable source (such as a telephone call or letter from the borrower), the lender must immediately grant the borrower an administrative forbearance on each loan obtained to attend that school while awaiting confirmation of eligibility for loan discharge. Also, i~~ If the guarantor has not already notified the lender of the school's closing, the lender must report the unconfirmed school closing to the guarantor. Upon notification from the guarantor that the Department has confirmed the school closure, the lender must provide the borrower with an application for a closed school loan discharge, if the guarantor has not done so.

~~If the borrower has been informed in writing of the costs associated with capitalized interest accrued during administrative forbearance periods, and the borrower does not request that the lender remove the administrative forbearance, the lender should continue to grant an administrative forbearance on the borrower's potentially eligible loans. The administrative forbearance should be continued until the lender obtains confirmation of the school's closing and the borrower's potential eligibility for loan discharge. The lender should document the borrower's file if the borrower requests that the administrative forbearance be removed. If the borrower continues to make payments during the administrative forbearance period, the lender is not required to return the borrower's payments.~~

A school's closing is considered to be officially confirmed as soon as it appears on a closed school list published by the Department and made available to all guarantors. A school must be included on the Department's list before a lender can file a claim on a borrower's loan based on the closing.

If a guarantor receives confirmation of a closed school from the Department, the guarantor sends to each affected lender a report listing all potentially eligible borrowers according to the guarantor's records—including any borrowers who have paid their loans in full. The guarantor also may forward forms for each identified borrower to the lender or advise the lender that the requests have been mailed directly to the borrowers (if the guarantor provides this service to its lenders). Otherwise, the lender is responsible for mailing a request to each affected borrower within 60 days of receiving the guarantor's notification, according to the procedures outlined in this subsection.

A lender also may review its records to identify other loans made to borrowers (or students) who appear to qualify for closed school loan discharge. If the lender identifies other potentially eligible borrowers, these must be included in the mailing of requests.

### Suspending and Resuming Collection Activities

If the lender is notified by the guarantor or the Department, or receives reliable information from another source (such as a telephone call or letter from the borrower) that a borrower may be eligible for a closed school loan discharge, the lender must immediately suspend all collection activities and may grant the borrower an administrative forbearance on any affected loan while awaiting confirmation of eligibility for loan discharge.

At the time an application for a closed school loan discharge request is provided to a borrower, the lender may grant the borrower an administrative forbearance. On a loan that appears to be eligible for discharge, the forbearance may be applied for a period of 60 days, beginning on the date the discharge application is provided to the borrower for completion. This forbearance is unnecessary for a borrower whose loan is in a grace, forbearance, or deferred status—unless that status is scheduled to expire before the end of the 60-day period. In these cases, if the forbearance is granted, the forbearance must begin immediately upon the expiration of the grace, forbearance, or deferred status and end no earlier than 60 days after the date the discharge application was provided to the borrower.

If the borrower continues to make payments during the forbearance period, the lender is not required to return those payments to the borrower. The lender must resume collection activities if the borrower fails to return a completed closed school loan discharge application and sworn statement within 60 days after the date the request is provided to the borrower, or within 30 days from receiving notification that the loan is ineligible for closed school loan discharge. The lender will have been deemed to have granted forbearance during the suspension period and may capitalize the interest.
[§682.402(d)(7)(ii)][1]

### Consolidation Loans

According to the Department, a borrower's Consolidation loan should be credited for the amount of the closed school loan discharge that would have been applicable to the borrower's loan at the time it was consolidated. Upon identifying a potentially eligible loan, the guarantor will

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forward a request for loan discharge due to school closure to the last holder of the loan before consolidation—even if the loan has been reported as paid in full.

Upon receiving the information, the lender should forward the request, with all available information pertaining to borrower payments made before consolidation, to the holder of the Consolidation loan. The guarantor may notify the Consolidation loan holder of the borrower's potential eligibility for loan discharge instead of the previous holder of the underlying loan, if appropriate.

~~The consolidation lender, w~~When notified of a borrower's potential eligibility for discharge of an underlying loan, the consolidating lender must suspend all collection activities and promptly provide a closed school loan discharge application to the borrower. The lender may ~~place the entire Consolidation loan in~~ grant an administrative forbearance on the borrower's Consolidation loan for ~~up to~~ a 60-~~-~~day~~s~~ ~~and promptly forward the request to the borrower for completion~~ period, beginning on the date the application is provided to the borrower for completion.

If the holder of an underlying loan before consolidation is unable to identify the consolidation lender, the lender must forward the request to the borrower with instructions that the borrower send the completed request to the consolidation lender.

### Notification to the Borrower

~~At the time a request for loan discharge due to school closure is mailed to a borrower, the lender must grant the borrower an administrative forbearance. On a loan that appears to be eligible for discharge, the forbearance should be applied for a period of 60 days, beginning on the date the request is sent to the borrower for completion. This forbearance is unnecessary for a borrower whose loan is in a grace, forbearance, or deferred status—unless that status is scheduled to expire before the end of the 60-day period. In these cases, the administrative forbearance must begin immediately upon the expiration of the grace, forbearance, or deferred status and end no earlier than 60 days after the date the request was sent to the borrower.~~

Along with the request for loan discharge due to school closure, the lender or guarantor must provide the following information to potentially eligible borrowers:

- Eligibility requirements for closed school loan discharge.
- Instructions for completing the request and returning it within 60 days.
- An explanation of the administrative forbearance applied to each of the borrower's potentially eligible loans and the effect of capitalization of interest accrued during the forbearance period.

If a borrower's address is unknown or the discharge application is returned as undeliverable and the borrower is delinquent in making payments, the lender must attempt to locate the borrower as required in subsection 11.7.C. The lender need not duplicate its efforts if skip tracing efforts are in progress or have been exhausted. Upon receiving a valid address for the borrower, the lender must send or resend the discharge application to the borrower. If the discharge application is resent to the borrower, the administrative forbearance period described previously in this subsection must not exceed a total of 60 days after the date on which the lender originally provided the request to the borrower.

### Procedures for Discharging Loans

The following procedures apply in cases where the school has been confirmed by the Department to have closed on or after January 1, 1986, and the borrower has been sent a request for loan discharge due to school closure:

*Processing the Borrower's Request*

If a borrower returns to the lender a fully completed and signed ~~request~~ discharge application, the lender ~~should~~ must determine whether the borrower appears to qualify for loan discharge. If the borrower appears to qualify, the lender ~~should~~ must file a claim according to the procedures outlined in this subsection. If a borrower returns to the guarantor a fully completed and signed ~~request~~ discharge application, the guarantor will review the request and determine the borrower's eligibility for discharge. The guarantor will then notify the lender that either the borrower qualifies for discharge and a claim should be filed or the borrower does not qualify for discharge and collection activity should resume. [§682.402(d)(7)(iii)][1]

If a borrower submits an incomplete request—except in the case of a missing signature—the lender or guarantor should either promptly return the request to the borrower, with an explanation of why the form is considered incomplete, or contact the borrower by telephone or letter to obtain the missing information. If the borrower's signature is missing, the form must be returned to the borrower. The lender or guarantor must document the borrower's loan history accordingly. In either situation, the administrative

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forbearance period described previously in this subsection must not exceed a total of 60 days from the date the request was originally mailed to the borrower.

If a borrower fails to submit a completed ~~request~~ discharge application within 60 days of being notified of that option, the lender must resume collection on the loan(s). The lender is deemed to have exercised forbearance on the loan(s) from the date of suspension of collection activity. Unpaid interest that accrued during the forbearance period may be capitalized. If a completed ~~request~~ discharge application is received from the borrower at a later date, the lender must process the request and file a claim with the guarantor if the borrower appears to qualify for loan discharge.

A lender can facilitate the timely and accurate processing of closed school claims by ensuring that a fully completed request from the borrower is submitted with each closed school claim. It is critical that each field on the request is completed by the appropriate party.

~~If a borrower's address is unknown or the request is returned as undeliverable and the borrower is delinquent in making payments, the lender must attempt to locate the borrower as required in section 11.7. The lender need not duplicate its efforts if skip tracing efforts are in progress or have been exhausted. Upon receiving a valid address for the borrower, the lender must send or resend the request to the borrower.~~[1]

*Claim Filing and Payment*

The lender must file a closed school claim within 60 days of receiving a completed request from the borrower or, if the guarantor has obtained the request directly from the borrower, within 60 days of the date of the guarantor's notification to file a closed school claim. Failure to meet this timely filing deadline may result in an interest penalty.

The lender must forward to the guarantor within 30 days of receipt any borrower payment it receives after the claim has been filed (see subsection 12.3.E).

Closed school claim filing documentation differs from that required for other claim types. The claim filing documentation required by the guarantor depends on the status of the loan. One of three categories may exist.

Some guarantors have additional documentation requirements. These requirements are noted in appendix C.

CATEGORY 1: If the closed school claim includes Stafford, PLUS, or SLS loans with outstanding balances, the lender must submit the following documentation:

- The Claim Form, completed according to the accompanying instructions.
- The completed request for loan discharge due to school closure.
- The application, if a separate loan application was provided to the lender, and the promissory note (or a true and exact copy of the promissory note), assigned to the guarantor.
- The total amount of payments made by or on behalf of the borrower. This total should be provided on the Claim Form. If the total amount of payments made by or on behalf of the borrower is not available, the lender must clearly explain why this information is not provided on the Claim Form.
- Any amounts the lender is aware of having received from a third-party source (e.g., a tuition recovery program). These amounts must be included in the total amount of principal repaid on the Claim Form and must *not* be included in the total amount of payments made by or on behalf of the borrower.

Supporting documentation not required for claim submission must be retained by the lender in accordance with federal requirements.

The claim payment amount will include remaining principal, outstanding accrued interest, and collection costs incurred by the lender and applied to the borrower's account within 30 days of the date the costs were actually incurred. If a lender meets all timely filing and refiling requirements, interest will be paid through the claim payment date.

At the same time the claim is paid, the guarantor will refund to the borrower all payments made by or on behalf of the borrower, less any payments received from a third-party source—unless the guarantor also holds a defaulted loan for the borrower that is not eligible for discharge. If the guarantor holds such a loan, the guarantor may apply the borrower's refund to the outstanding balance of the defaulted loan account. Any payment exceeding the remaining balance of the defaulted loan account will be forwarded to the borrower. The guarantor will notify the borrower of the application of the refund to repay the defaulted loan(s) at the time the claim is paid.

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CATEGORY 2: If the closed school claim includes Stafford, PLUS, or SLS loans that have been paid in full as a result of a Consolidation loan, the consolidation lender must submit the following documentation:

- The Claim Form completed according to the accompanying instructions. The Claim Form must specify the amount paid to the previous holder to consolidate the loan and the interest applicable to the Consolidation loan. The consolidation lender should identify the loan type on the Claim Form as the loan type of the underlying loan (not as a Consolidation loan). The lender must report an interest-paid-through date equal to the date of consolidation, unless a subsidized deferment applied to the Federal Consolidation loan requires adjustment of the interest-paid-through date to a later date.

- The completed request for loan discharge due to school closure.

- The application, if a separate loan application was provided to the lender, and the promissory note for the underlying loan(s) (or a true and exact copy of the promissory note), assigned to the guarantor. If the original or copy of the application or promissory note cannot be located, the guarantor and the lender must examine their records and any documentation submitted by the borrower to determine whether the borrower qualifies for a discharge or refund.

- Documentation that specifically identifies each loan for which discharge is requested. This information should include loan type, disbursement date(s), the prior holder of the loan, and the amount paid to the prior holder when the loan was consolidated.

- The total amount of payments made to each applicable underlying loan holder before consolidation by or on behalf of the borrower. This total should be provided on the Claim Form. If the total amount of payments made by or on behalf of the borrower is not available, the lender must clearly explain why this information is not provided on the Claim Form.

- Any amounts the lender is aware of having received from a third-party source (e.g., a tuition recovery program). These amounts must be included in the total amount of principal repaid on the Claim Form and must *not* be included in the total amount of payments made by or on behalf of the borrower.

Supporting documentation not required for claim submission must be retained by the lender in accordance with federal requirements.

If an underlying loan is determined to be eligible for discharge, the claim amount paid to the holder of the Consolidation loan will include *(a)* the amount paid by the consolidation lender to the prior holder, *(b)* interest on the amount paid to the prior holder accrued from the date of consolidation through the date of discharge, and *(c)* the amount of all payments made by or on behalf of the borrower on each of the underlying loans before consolidation—less any payments received from a third-party source.

The consolidation lender must apply any claim payment amount received from the guarantor to the remaining balance of the outstanding Consolidation loan. If application of the claim payment results in the Consolidation loan being paid in full, any remaining funds must be refunded to the borrower.

CATEGORY 3: If the claim consists solely of FFELP loans paid in full by or on behalf of the borrower, the lender must submit the following documentation:

- The Claim Form, completed according to the accompanying instructions.

- The completed request for loan discharge due to school closure.

- The application, if a separate loan application was provided to the lender, and the promissory note (or a true and exact copy of the promissory note), assigned to the guarantor. If the original or copy of the application or promissory note cannot be located, the guarantor and the lender must examine their records and any documentation submitted by the borrower to determine whether the borrower qualifies for a discharge or refund.

- The total amount of payments made by or on behalf of the borrower. This total should be provided on the Claim Form. If the total amount of payments made by or on behalf of the borrower is not available, the lender must clearly explain why this information is not provided on the Claim Form.

- Any amounts the lender is aware of having received from a third-party source (e.g., a tuition recovery program). These amounts must be included in the total

amount of principal repaid on the Claim Form and must *not* be included in the total amount of payments made by or on behalf of the borrower.

Supporting documentation not required for claim submission must be retained by the lender in accordance with federal requirements.

If a loan that is paid in full is determined to be eligible for discharge, the guarantor will notify the lender that the loan obligation is discharged.

The guarantor will refund to the borrower all payments made by or on behalf of the borrower, less any payments received from a third-party source—unless the guarantor also holds a defaulted loan for the borrower that is not eligible for discharge. If the guarantor holds such a loan, the guarantor may apply the borrower's refund to the outstanding balance of the defaulted loan account. Any payment exceeding the remaining balance of the defaulted loan account will be forwarded to the borrower. The guarantor will notify the borrower of the application of the refund to repay the defaulted loan(s).

*Additional Considerations*

Within 30 days after receiving claim payment, the lender must notify the borrower that the loan obligation has been discharged and must instruct all credit reporting agencies to which the lender previously reported information on the loan to delete all adverse credit history associated with the discharged loan.

If borrower payment records are unavailable at the time the claim is due to be filed by the lender, the lender should request loan discharge from the guarantor within the required time frame to avoid a violation. The guarantor will refund to the borrower the difference between the original loan principal and the principal balance outstanding with the lender. Any additional amounts not included in the claim payment can be paid later through a supplemental claim based on proof of borrower payments or supplemental documentation provided by the lender.

If the discharged loan is included in an active bankruptcy case, the entity on record with the bankruptcy trustee must notify the trustee that the debt has been discharged and explain the reason for the discharge.

**Discharging Defaulted Loans**

*Default Claim Not Yet Filed*

If the lender has not filed a claim on a defaulted loan when it learns of a borrower's potential eligibility for closed school discharge, the lender should grant the borrower an administrative forbearance. The lender should send a borrower it believes may be eligible for discharge a request for loan discharge due to school closure once the school has been confirmed to be closed.

If the request is not returned within 60 days, the lender must discontinue the administrative forbearance and prepare the default claim for filing. The aging of the delinquency on the account will stop due to the administrative forbearance so that the lender will be able to file a default claim if the borrower fails to return the request. In these cases, the lender should clearly indicate in the servicing history that a closed school forbearance was granted after default. This indication will assist the guarantor in appropriately handling the situation and will help prevent an inappropriate cancellation of the guarantee due to a timely filing violation. Without a clearly documented forbearance, the number of days of delinquency would appear to far exceed the permissible amount at the time the guarantor receives the claim.

*Default Claim Filed, But Not Yet Paid*

To provide a borrower the opportunity for loan discharge when a default claim has been filed but not yet paid, the lender must notify the guarantor of each borrower it identifies as potentially eligible for loan discharge due to his or her school's closing. To expedite this process, on the same day the lender sends the discharge request to the borrower, the lender should notify the guarantor. The lender may request that the claim file be returned. However, if no request is made, the guarantor will continue processing the default claim.

If the borrower returns a completed request form, the lender should refile the claim as a closed school claim. If no response is received from the borrower, the lender should reactivate the default claim. The following time frames apply to refiling/reactivation deadlines and begin with the earlier of the day the lender or guarantor received the completed request for discharge from the borrower or, if no response is received, 60 days after the request is sent to the borrower:

- If the claim is refiled as a closed school claim or reactivated as a default claim within 30 days, the claim will be paid including all outstanding interest.

- If the claim is refiled as a closed school claim or reactivated as a default claim on or after day 31, but no later than day 60, the claim will be paid, but interest will be limited to 270 days.

- If the claim is not refiled as a closed school claim or reactivated as a default claim within 60 days, a timely filing violation exists and the guarantee on each applicable loan is canceled. To reinstate the guarantee, the cure procedures for timely claim filing violations must be completed (see subsection 13.5.D).

- If the guarantee on the loan has been canceled, but the lender eventually receives the completed borrower request, the guarantor will waive the timely filing violation and will pay the closed school claim. However, only the principal balance will be included in the claim payment; no interest will be paid to the lender in these situations.

If a claim has been filed due to bankruptcy, ineligible borrower, death, disability, a defaulted Consolidation loan, or false certification—or if skip tracing is exhausted for delinquent borrowers with invalid addresses—the lender must not recall the claim. Particular care should be exercised when sending the request to borrowers who have filed bankruptcy. The cover letter must clearly state that the lender is not trying to "collect" the loan.

### Discharge Denials

If a guarantor determines that a loan is not dischargeable under closed school provisions, it will return the claim to the lender with an explanation of why the borrower is not eligible. Within 30 days after being notified that the discharge has been denied, the lender must notify the borrower of the reasons for denial and resume collection efforts. The lender is considered to have granted an administrative forbearance on each loan from the date collection activity was suspended until the date the lender received notification that the claim was denied. The lender may capitalize outstanding accrued interest during the forbearance period.

A borrower's request for loan discharge may not be denied solely due to the borrower's failure to meet the 60-day requirement for returning the completed request for loan discharge due to school closure.

### Citations

Information in this subsection has been compiled based on guidance from the following sources:

- Higher Education Act, Subsection 437(c)

- §682.402(d), (g), (h), and (k)

- DCL 94-L-166/94-G-256, September 1994

- Dear Guaranty Agency Director Letter, September 22, 1994 (supplement to preceding DCL)

- DCL 89-G-159, May 1989

## 12.8.C Death

If a borrower of a loan for which there is no comaker dies, his or her loan is discharged. In the case of a PLUS loan~~, if the student for whom a parent obtained a PLUS loan dies, the borrower's loan is discharged~~ obtained for a dependent student, the parent borrower's loan is discharged if the student dies. Any endorser is released from his or her repayment obligation upon the discharge of ~~the borrower's~~ a loan.
[§682.402(b)]

If a loan is made to two borrowers as comakers, the loan is discharged~~able as a death claim only~~ if both ~~borrowers~~ comakers have died or if one ~~borrower~~ comaker has died and the other ~~borrower~~ comaker has had his or her obligation to repay the loan discharged on another basis (such as bankruptcy or total and permanent disability). For a PLUS loan, ~~I~~if only one comaker dies and ~~has~~ his or her obligation to repay the loan is discharged, the ~~other~~ surviving comaker is obligated to repay ~~for repayment of~~ the ~~remaining~~ entire PLUS loan balance. For a Consolidation loan, the portion of the loan attributable to the comaker who has died is discharged. The surviving comaker is obligated to repay the remaining Consolidation loan balance.
[§682.402(a)(2) and (b)]

The underlying portion of a Consolidation loan attributable to a PLUS loan obtained for a dependent student is eligible for discharge if that student dies. The borrower of the Consolidation loan (or both comakers in the case of a joint Consolidation loan made to a married couple) is obligated to repay the remaining Consolidation loan balance.[1]

1. Policy 701 (Batch 108), approved November 20, 2003

### Discharge When Guarantee Is Lost

If there have been servicing errors on a loan such that the loan has lost its guarantee, those violations must have been cured before the date the lender determines that the borrower or dependent student died. If the violations were not cured before the date of the death, the lender must discharge the loan—even though the balance will not be reimbursed by the guarantor.
[§682, Appendix D]

### Suspending Collection

If a lender receives what it believes to be reliable but unofficial notification of a borrower's or student's death, the lender must suspend any due diligence activities on the loan for up to 60 days and diligently attempt to obtain an original or certified copy of the death certificate. In the event of an exceptional circumstance and on a case-by-case basis, the guarantor's CEO may approve a discharge based on other reliable documentation. If additional time is needed to obtain this documentation, due diligence may be suspended for up to an additional 60 days, for a total suspension of up to 120 days. If documentation is not received, the lender should treat the period of suspension as though a forbearance had been granted. A signed forbearance agreement is not required for this period. The delinquency status, if any, that existed on the loan before the lender suspended its due diligence remains. The lender must resume due diligence immediately at the level of delinquency at which it was suspended.
[§682.402(b)(3)]

After receiving an original or certified copy of the borrower's or student's death certificate or notification of discharge approval from the guarantor, the lender may not attempt to collect on the loan from the borrower, the borrower's estate, or any endorser.

### Treatment of Payments

Payments received from the borrower or the borrower's estate or paid on behalf of the borrower after the date of the borrower's or student's death must be returned to the sender. If payments are received and the lender has no indication of an address or party to which payments may be returned, the lender may apply those payments to the loan, but must document the special circumstances. The lender may capitalize the outstanding accrued interest for the period represented by payments that were made but subsequently returned.
[§682.402(b)(5)]

### Timely Filing Deadline for Death Claims

A lender must file a death claim within 60 days of receiving an original or certified copy of the death certificate. In the event of an exceptional circumstance and on a case-by-case basis, the guarantor's CEO may approve a discharge based on other reliable documentation.

Some guarantors have additional or alternative requirements regarding documentation for death claims. These requirements are noted in appendix C.

If a death claim is not filed by the 60th day, the guarantor will still purchase the claim—unless the lender incurred due diligence or timely filing violations that were not cured before notification of the borrower's death and the violations were based on an earlier delinquency and resulted in cancellation of the guarantee on the loan. However, the claim will be subject to an interest penalty, and the lender will be required to repay all interest benefits and special allowance payments for amounts received or otherwise payable after the expiration of the 60-day filing deadline. (See section 13.4.)
[§682.402(g)(2)(i)]

## 12.8.D False Certification

The Higher Education Act provides relief for borrowers who meet false certification requirements as outlined in this subsection. A borrower qualifies for discharge of the entire loan due to false certification if the borrower—or student for whom a parent obtained a PLUS loan—received any part of the proceeds of a FFELP loan on or after January 1, 1986, to attend a school that:

- Admitted the student on the basis of his or her ability to benefit from its training, even though the student did not meet the applicable requirements for admission on the basis of ability to benefit.
- Signed the borrower's name on the application and/or promissory note without his or her authorization.
- Endorsed the borrower's name on the loan check or signed the authorization for electronic funds transfer or master check without the borrower's authorization—unless the student for whom the loan was made received the proceeds of the loan either by actual delivery of the loan funds or by a credit in the amount of the contested disbursement to charges owed to the school for the portion of the educational program completed by the student.

The guarantor or Department may initiate the discharge process if either determines that the borrower is eligible for discharge based on information in its possession. If, however, the borrower initiates the process by requesting a discharge based on false certification, the borrower must complete, certify, and submit to the lender or guarantor the applicable loan discharge form. Through submission of this form, hereafter referred to as the "request," the borrower:

- Agrees to provide, as requested, other reasonably available true and correct documentation that demonstrates the borrower's eligibility for discharge.
- Agrees to cooperate with the Department (or its designee) in any enforcement action or attempt to recover discharged loan amounts, and to transfer and relinquish to the Department any right to a refund on a discharged loan.
- States whether the student has made a claim with respect to the school's false certification with any third party, such as the holder of a performance bond or a tuition recovery program—and, if so, provides the amount of any payment received by the borrower (or student) or credited to the loan obligation.

If the guarantor determines that a borrower is eligible for a loan discharge or a discharge of one or more disbursements on a loan, the discharge cancels the obligation of the borrower to repay the applicable outstanding principal, accrued interest, collection costs, and late fees. It also qualifies the borrower for reimbursement of any amounts paid voluntarily or through forced collection on the amount discharged. The lender or guarantor must ensure that a discharge is reported to credit bureaus such that the adverse credit history associated with the amount discharged is removed.

The guarantor or Department may initiate the discharge process if either determines that the borrower is eligible for discharge based on information in its possession. If, however, the borrower initiates the process by requesting a discharge based on the school's improper determination of the student's ability to benefit, the borrower must complete, certify, and submit to the lender or guarantor the Loan Discharge Application: False Certification of Ability to Benefit form. Through submission of this request, the borrower will make all of the following certifications with respect to the borrower or student for whom a parent received a PLUS loan:

- The student received proceeds of a loan, in whole or in part, after January 1, 1986, to attend a school.
- The student was admitted to the school on the basis of ability to benefit from its training, but did not meet the applicable requirements for admission on the basis of ability to benefit.

In the case of a borrower requesting a discharge due to a disqualifying status, the borrower must complete, certify, and submit to the lender or guarantor the Loan Discharge Application: False Certification (Disqualifying Status) form. Through submission of this request, the borrower will:

- State that he or she (or the student in the case of a PLUS borrower) was unable to meet the legal requirements for employment in the student's state of residence in the occupation for which the program of study was intended, due to age (upon completion of training), physical or mental condition, criminal record, or other reason.
- Provide information about the state legal requirement for employment that the student could not meet, including a reference to or a copy of the specific state law or regulation.
- Provide supporting documentation proving that the borrower had the disqualifying status at the time the loan was certified or originated.

In the case of a borrower requesting a discharge because the school signed the borrower's name on the loan application or promissory note without the borrower's authorization, the borrower must complete, certify, and submit to the lender or guarantor the Loan Discharge Application: Unauthorized Signature/Unauthorized Payment form. Through submission of this request, the borrower will:

- State that the signature on either of those documents was not his or her signature.
- Provide five different specimens of his or her signature, two of which must be no earlier nor later than one year before or after the date of the contested signature.

In the case of a borrower requesting a discharge because the school, without the borrower's authorization, endorsed the borrower's name on the loan check or signed the authorization for electronic funds transfer or master check, the borrower must complete, certify, and submit to the

lender or guarantor the Loan Discharge Application: Unauthorized Signature/Unauthorized Payment form. Through submission of this request, the borrower will:

- Certify that he or she did not endorse the loan check or sign the authorization for electronic funds transfer or master check, or authorize the school to do so.
- Provide five different specimens of his or her signature, two of which must be no earlier nor later than one year before or after the date of the contested signature.
- State that the proceeds of the contested disbursement were not received either through actual delivery of the loan funds or by a credit in the amount of the contested disbursement applied to charges owed to the school for the portion of the educational program completed by the student.

In some cases, the guarantor will send the request forms to the lender. The lender will then forward the request to the borrower according to the following procedures. In other cases, the guarantor may mail the request directly to potentially eligible borrowers and notify the lender of this action. In such cases, the guarantor also may have the borrower return the request directly to the guarantor for a determination of eligibility. The guarantor will then notify the lender of the borrower's eligibility or ineligibility for discharge of the loan.

#### Identifying Potentially Eligible Borrowers

A borrower's potential eligibility may be identified by the receipt of reliable information in the form of a telephone call or written communication that may come from the borrower, lender, guarantor, Department, or another source. The lender is required to assist the guarantor and the borrower in determining whether the borrower is eligible for discharge of the loan.

#### Suspending Collection

If the lender is notified by the guarantor or the Department, or receives reliable information from another source that a borrower may be eligible for a false certification loan discharge, the lender must immediately suspend all collection activity and may grant the borrower a 60-day administrative forbearance on all of his or her loans that are potentially eligible for discharge while awaiting a determination regarding discharge. This forbearance is unnecessary for borrowers whose loans are in a grace, forbearance, or deferred status—unless the grace, forbearance, or deferred status expires before the end of the 60-day administrative forbearance period. In these cases, the forbearance must begin immediately upon the expiration of the grace, forbearance, or deferred status and end no earlier than 60 days after the date the request was sent to the borrower. If the borrower continues to make payments during the forbearance period, the lender is not required to return those payments to the borrower.

#### Notification to the Borrower

The lender or guarantor must provide the following information to potentially eligible borrowers:

- Eligibility requirements for false certification loan discharge.
- The request for loan discharge due to false certification and instructions for completing the request and submitting it within 60 days. If the guarantor or Department initiated the discharge based on knowledge of false certification eligibility, the borrower may not be required to complete a discharge request.
- An explanation of the administrative forbearance applied to each of the borrower's potentially eligible loans and the effect of capitalization of interest accrued during the forbearance period.

If the borrower's address is unknown or the request is returned as undeliverable and the borrower is delinquent in making payments, the lender must attempt to locate the borrower as required by the applicable skip tracing provisions (see section 11.7). The lender need not duplicate its efforts if skip tracing efforts are in progress or have been exhausted. Upon receiving a valid address for the borrower, the lender must send or resend the request to the borrower.

#### Procedures for Discharging Loans

The following procedures apply in cases where the borrower has stated that he or she is potentially eligible for a false certification discharge and has been sent a request for loan discharge due to false certification.

*Processing the Borrower's Request*

If a borrower returns to the lender a fully completed and signed request (even after the 60-day time limit), the lender must file a claim according to the procedures provided in this subsection. However, in a situation in which the borrower claims that the school improperly endorsed or signed the borrower's name on a loan check and that the borrower did not receive the loan proceeds, the lender must first review all available documentation. [§682.402(e)(12)]

If a lender determines that a borrower's assertion is invalid based on persuasive evidence, the lender may interpret the borrower's objection as a statement of intent not to repay the loan and may file a default claim on that basis. However, the lender cannot report the loan as defaulted to credit bureaus until a final determination is made by the guarantor or the Department.

If a borrower returns to the guarantor a fully completed and signed request, the guarantor will review the request and determine the borrower's eligibility for false certification discharge. The guarantor will then notify the lender that either the borrower qualifies for discharge and a claim should be filed or the borrower does not qualify for discharge and collection activity should resume.

If a borrower submits an incomplete request to the lender or guarantor, the request should be promptly returned to the borrower with an explanation of why the form is incomplete, or the borrower may be contacted to obtain the missing information. The lender or guarantor must document the borrower's history accordingly. If the borrower's signature is missing, the form must be returned to the borrower. If an incomplete request is returned to the borrower, or if attempts are being made to contact the borrower to obtain missing information, the administrative forbearance period described previously in this subsection must not exceed a total of 60 days from the date on which the request was originally sent to the borrower.

If a borrower fails to submit a completed request within 60 days of being notified of that option, the lender must resume collection on the affected loan(s). The lender is deemed to have exercised forbearance on the loan(s) from the date of suspension of collection activity. Unpaid interest that accrued during the forbearance period may be capitalized. A borrower's request for loan discharge cannot be denied solely due to the borrower's failure to return the completed request within 60 days. If the lender receives a completed request from the borrower at a later date, the lender must process the request and file a claim with the guarantor, if the borrower appears to qualify for the loan discharge.

*Discharge Approvals*

If the guarantor determines that a loan is dischargeable based solely on the school signing a borrower's loan check, or electronic funds transfer or master check authorization, without the borrower's permission, the guarantor will take the following actions within 30 days of approving the discharge:

- Notify the borrower that his or her liability with respect to the amount of the contested disbursement of the loan has been discharged and that the lender has been informed.
- Transfer to the lender the borrower's written assignment of any rights the borrower may have against third parties with respect to a loan disbursement that was discharged because the borrower did not sign the loan check.
- Notify the lender that the borrower's liability with respect to the amount of the contested disbursement of the loan has been discharged.

Upon receiving notification of the loan discharge from the guarantor (as noted in the third bullet above), the lender must take the following actions:

- Immediately discontinue any collection efforts against the borrower with respect to the discharged loan amount and any charges imposed, or costs incurred, by the lender related to the discharged loan amount.
- Within 30 days, instruct all credit reporting agencies to which the lender previously reported information on the loan to delete all adverse credit history associated with the discharged loan.
- Within 30 days, refund to the borrower all amounts paid by the borrower with respect to the loan disbursement that was discharged, including any charges imposed or costs incurred by the lender related to the discharged loan amount.
- Within 30 days, refund to the Department all interest benefits and special allowance payments received from the Department with respect to the loan disbursement that was discharged.
- Within 30 days, if applicable, reimburse the guarantor for the discharged loan disbursement amount, less borrower refunds.
  [§682.402(e)(10)]

If the guarantor determines that a loan is dischargeable based on the school signing an application or promissory note without the borrower's authorization, or the school

improperly determining the student's ability to benefit from the school's training, the guarantor will take the following actions within 30 days of approving the discharge:

- Notify the borrower that his or her liability with respect to the amount of the contested disbursement of the loan has been discharged.

- Instruct all credit reporting agencies to which the guarantor previously reported the status of the loan to delete all adverse credit history associated with the discharged loan.

- Refund to the borrower all amounts paid by the borrower to the lender or the guarantor with respect to the discharged loan, including any late fees or collection ~~charges~~ costs.[1] [§682.402(e)(9)]

*Claim Filing Procedures*

A lender can facilitate the timely and accurate processing of false certification claims by ensuring that a fully completed request for loan discharge due to false certification from the borrower is submitted with each claim. It is critical that each applicable field on the request is completed appropriately.

The lender must file a false certification claim within 60 days of receiving a completed request from the borrower or, if the guarantor has obtained the request directly from the borrower, within 60 days from the date of the guarantor's notification to file a false certification claim. Failure to meet this timely filing deadline may result in an interest penalty.

The lender must forward any borrower payment it receives after the claim has been filed to the guarantor within 30 days of receipt (see subsection 12.3.E).

If a false certification claim is submitted and the guarantor determines that the borrower is eligible for loan discharge, the claim will be paid within 90 days of the guarantor's receipt of the complete claim (if the lender is entitled to receive claim payment and the entire loan is discharged). The guarantor will notify the lender and borrower that the loan obligation has been discharged. The lender must notify all credit reporting agencies to which the lender previously reported information on the loan to delete all adverse credit history associated with the discharged loan.

The claim payment amount will include remaining principal, outstanding accrued interest, and collection costs incurred by the lender and applied to the borrower's account within 30 days of the date the costs were actually incurred. If a lender meets all timely filing and refiling requirements, interest will be paid through the claim payment date.

On the same date the guarantor pays the claim, it will refund to the borrower all borrower payments made on the loan, minus any funds received from a third-party source.

For an eligible loan that was previously paid in full by or on behalf of the borrower, the guarantor will notify the lender that the loan obligation is discharged and will refund to the borrower all borrower payments made on the loan, minus any funds received from a third-party source.

If borrower payment records are unavailable at the time the claim is filed by the lender, the guarantor will refund to the borrower the difference between the original loan principal and the principal balance outstanding with the lender. Any additional amounts not included in the claim payment can be paid later through a supplemental claim based on proof of borrower payments or supplemental documentation provided by the lender.

*Claim Filing Documentation*

False certification claim filing documentation differs from that required for other claim types. The claim filing documentation required by the guarantor depends on the status of the loan. One of three categories may exist.

Some guarantors have additional documentation requirements. These requirements are noted in appendix C.

CATEGORY 1: If the false certification claim includes Stafford, PLUS, or SLS loans with outstanding balances, the lender must submit the following documentation:

- The Claim Form, completed according to the accompanying instructions.

- The completed request for loan discharge due to false certification. If the guarantor or Department initiated the discharge based on knowledge of false certification eligibility, the lender may not be required to submit a discharge request.

- Any required borrower signature specimens or disbursement checks (as applicable).

- The application, if a separate loan application was provided to the lender, and the promissory note (or a true and exact copy of the promissory note), assigned to the guarantor.

1. Policy 715 (Batch 108), approved November 20, 2003

- The total amount of payments made by or on behalf of the borrower. This total should be provided on the Claim Form. If the total amount of payments made by or on behalf of the borrower is not available, the lender must clearly explain why this information is not provided on the Claim Form.

- Any amounts the lender is aware of having received from a third-party source (e.g., a tuition recovery program). These amounts must be included in the total amount of principal repaid on the Claim Form and must *not* be included in the total amount of payments made by or on behalf of the borrower.

Supporting documentation not required for claim submission must be retained by the lender in accordance with federal requirements.

CATEGORY 2: If the claim includes Stafford, PLUS, or SLS loans that have been paid in full as a result of a Consolidation loan, the consolidation lender must submit the following documentation:

- The Claim Form, completed according to the accompanying instructions. The Claim Form must specify the amount paid to the previous holder to consolidate the loan as well as the interest applicable to the Consolidation loan. The consolidation lender should identify the loan type on the Claim Form as the loan type of the underlying loan (not as a Consolidation loan). The lender must report an interest-paid-through date equal to the date of consolidation, unless a subsidized deferment applied to the Consolidation loan requires adjustment of the interest-paid-through date to a later date.

- The completed request for loan discharge due to false certification. If the guarantor or Department initiated the discharge based on knowledge of false certification eligibility, the lender may not be required to submit a discharge request.

- Any required borrower signature specimens or disbursement checks (as applicable).

- The application, if a separate loan application was provided to the lender, and the promissory note for the underlying loan(s) (or a true and exact copy of the promissory note), assigned to the guarantor. If the original or copy of the application or promissory note cannot be located, the guarantor and the lender must examine their records and any documentation submitted by the borrower to determine whether the borrower qualifies for a discharge or refund.

- Documentation that specifically identifies each loan for which discharge is requested. This information should include loan type, disbursement date(s), the prior holder of the loan, and the amount paid to the prior holder when the loan was consolidated.

- The total amount of payments to each applicable underlying loan holder before consolidation that were made by or on behalf of the borrower. This total should be provided on the Claim Form. If the total amount of payments made by or on behalf of the borrower is not available, the lender must clearly explain why this information is not provided on the Claim Form.

- Any amounts the lender is aware of having received from a third-party source (e.g., a tuition recovery program). These amounts must be included in the total amount of principal repaid on the Claim Form and must *not* be included in the total amount of payments made by or on behalf of the borrower.

Supporting documentation not required for claim submission must be retained by the lender in accordance with federal requirements.

CATEGORY 3: If the claim consists solely of FFELP loans paid in full by or on behalf of the borrower, the lender must submit the following documentation:

- The Claim Form, completed according to the accompanying instructions.

- The completed request for loan discharge due to false certification. If the guarantor or Department initiated the discharge based on knowledge of false certification eligibility, the lender may not be required to submit a discharge request.

- Any required borrower signature specimens or disbursement checks (as applicable).

- The application, if a separate loan application was provided to the lender, and the promissory note (or a true and exact copy of the promissory note), assigned to the guarantor. If the original or copy of the application or promissory note cannot be located, the guarantor and the lender must examine their records

and any documentation submitted by the borrower to determine whether the borrower qualifies for a discharge or refund.

- The total amount of payments made by or on behalf of the borrower. This total should be provided on the Claim Form. If the total amount of payments made by or on behalf of the borrower is not available, the lender must clearly explain why this information is not provided on the Claim Form.

- Any amounts the lender is aware of having received from a third-party source (e.g., a tuition recovery program). These amounts must be included in the total amount of principal repaid on the Claim Form and must *not* be included in the total amount of payments made by or on behalf of the borrower.

Supporting documentation not required for claim submission must be retained by the lender in accordance with federal requirements.

*Claim Payment*

A claim will not be paid if it is filed by a lender based solely on the guarantor's determination that the school endorsed the borrower's loan check without the borrower's authorization.

An eligible claim will be paid within 30 days of discharge approval if the lender files the claim based on either of the following guarantor determinations:

- That the school signed the borrower's promissory note or authorization for electronic funds transfer or master check without the borrower's permission.

- That the school failed to properly determine the student's ability to benefit from the school's training.

The claim payment amount on an outstanding loan will include the remaining principal balance, outstanding interest accrued on the loan, and eligible collection costs incurred by the lender and applied to the borrower's account within 30 days of the date those costs were actually incurred.

At the same time the claim is paid, the guarantor will refund all payments made by or on behalf of the borrower, less any payments received from a third-party source.

### Discharging Loans Paid in Full by the Borrower

If a loan that is paid in full is determined to be eligible for discharge, the refund to the borrower will include all payments made by or on behalf of the borrower, less any payments received from a third-party source.

### Discharging Loans Paid in Full by Consolidation

If a loan that is paid in full by consolidation is determined to be eligible for discharge, the claim amount paid to the holder of the Consolidation loan will include the amount paid by the consolidation lender to the prior holder plus interest and the amount of all payments made by or on behalf of the borrower before consolidation, less any payments received from a third-party source.

Any payment exceeding the remaining balance of the Consolidation loan is to be forwarded to the borrower.

Within 30 days after receiving claim payment, the lender (or prior lender in the case of a loan paid in full by the borrower or through consolidation) must notify the borrower that his or her obligation has been discharged. If the lender is notified by the guarantor that the borrower does not qualify for loan discharge, the lender must, within 30 days of receiving notification, resume collection activities and notify the borrower of the reason for denial.

### Discharge Denials

If the guarantor determines that a loan is not dischargeable, the guarantor will ensure that the following actions are performed within 30 days of denial:

- The guarantor will notify the lender that the borrower does not qualify for the requested discharge.

- The guarantor will notify the borrower that he or she does not qualify for discharge and explain the reasons for that determination.

In its notification, the guarantor will advise the borrower that he or she remains obligated to repay the loan and warn the borrower of the consequences of default. In addition, the guarantor will explain that the borrower will be considered to be in default on the loan—unless the borrower fulfills either of the following requirements within 30 days:

- Submits a written statement to the guarantor in which the borrower acknowledges the debt and, if payments are due, agrees to begin or resume making those payments to the lender. Within 30 days after receiving

this statement, the guarantor will return the claim file to the lender and notify the lender to resume collection efforts if payments are due.

- Requests that the Department review the guarantor's decision. Within 30 days after receiving this request, the guarantor will forward the claim file and all relevant documentation to the Department for review. Approval of the discharge by the Department will result in the forgiveness of the loan through claim payment or discharge by the guarantor. Denial will result in the return of the claim to the holder for continued servicing and collection.

The guarantor will pay a default claim to the lender within 30 days after a borrower fails to return either the statement acknowledging the debt or the request for review of the guarantor's decision by the Department.

A borrower's request for a false certification loan discharge may not be denied solely due to the borrower's failure to return the completed request within 60 days.

### Citations

Information in this subsection has been compiled based on guidance from the following sources:

- Higher Education Act, Subsection 437(c)
- §682.402 (e), (g), (h), and (k)
- DCL 94-L-166/94-G-256

## 12.8.E Total and Permanent Disability

If a borrower claims to be totally and permanently disabled, the lender must request that the borrower ~~(or the borrower's representative if the borrower is unable to do so)~~ provide certification of the disability from a physician. The lender may request that the borrower's representative provide the physician's certification if the borrower is unable to do so. The borrower or the borrower's representative must submit a completed ~~Physician's Certification of Borrower's Total and Permanent Disability~~ Loan Discharge Application: Total and Permanent Disability or other form(s) approved by the Department. The certification must include the date the borrower became unable to work and earn money because of an injury or illness that is expected to continue indefinitely or result in death.[1]
[§682.402(c)(2)]

### Suspending Collection

If a lender receives reliable information indicating that a borrower has become totally and permanently disabled, the lender may grant the borrower an administrative forbearance, not to exceed 60 days, until the lender receives certification of the borrower's total and permanent disability. If the lender does not grant the borrower an administrative forbearance, the lender must continue collection activity until it receives the certification—or until it receives a written request from the physician requesting additional time to determine whether the borrower is totally and permanently disabled.

If the lender receives a written request from the borrower's physician requesting additional time to make a determination, the lender must suspend collection activity on the loan for up to 60 days or until the certification is received, whichever is earlier. If the lender determines that the borrower does not meet the definition of totally and permanently disabled, or if the lender does not receive the physician's certification of total and permanent disability within 60 days of the receipt of the physician's written request for additional time, the lender must resume collection activity and treat the loan as though forbearance had been granted during this period. A signed forbearance agreement is not required for this administrative forbearance period. The delinquency status, if any, that existed on the loan before the lender suspended its due diligence remains. The lender must resume due diligence immediately at the level of delinquency at which it was suspended. For more information on the use of administrative forbearance in conjunction with the lender's receipt of a physician's written request for additional time, see subsection 10.19.O.
[§682.402(c)(5)]

### General Discharge Requirements for Total and Permanent Disability

If a doctor of medicine or osteopathy, legally authorized to practice in a state, certifies that the borrower is totally and permanently disabled, the borrower's obligation to repay the loan may be discharged. For these purposes, a borrower is considered totally and permanently disabled if he or she is unable to work and earn money because of an injury or illness that is expected to continue indefinitely or result in death. A borrower is not considered totally and permanently disabled on the basis of a condition that

1. Policy 706 (Batch 107), approved October 16, 2003

existed at the time the loan was made, unless that condition has substantially deteriorated to the point of total and permanent disability since the loan was made. In this situation, the borrower should ensure that the physician clearly notes that the condition became totally and permanently disabling after the date on which the loan was made.
[§682.201(a)(4) and (6); §682.402(c)(1)(iii)]

For a Consolidation loan, a borrower must be certified totally and permanently disabled according to FFELP discharge criteria for *all* underlying loans—including any non-FFELP loans. In other words, all of the underlying loans would be eligible for discharge due to total and permanent disability had these loans not been consolidated. A borrower is considered totally and permanently disabled based on a condition that existed at the time the borrower's underlying loans were made only if the borrower's condition substantially deteriorated to the point that the borrower was rendered totally and permanently disabled after the loans were made. If requested, a borrower seeking to discharge a Consolidation loan obligation must provide the lender with the disbursement dates of the underlying loan(s), if that information is not available in the lender's servicing records.
[§682.402(c)(1)(iv)]

If a Consolidation loan is made jointly to a married couple as comakers, and one of the borrowers becomes totally and permanently disabled, the portion of the Consolidation loan attributable to the disabled borrower may be discharged. However, both borrowers remain jointly and severally liable for any remaining balance after the discharge.
[§682.402(a)(2)]

If a PLUS loan is made to two borrowers as comakers, the loan is dischargeable due to total and permanent disability only if both borrowers become disabled, or if one borrower becomes disabled and the other has his or her obligation to repay the loan discharged on another basis (such as death or bankruptcy). If only one comaker has his or her obligation discharged, the other comaker is obligated for repayment of the remaining loan balance.
[§682.402(a)(3)]

### Discharge When Guarantee Is Lost

If there have been servicing errors on the loan such that the loan has lost its guarantee, and those violations were not cured before the date the lender determined that the borrower was totally and permanently disabled, the lender must discharge the loan—even though the balance will not be reimbursed by the guarantor.
[§682, Appendix D]

### Conditional Discharge Due to Total and Permanent Disability

Total and permanent disability discharge determinations made by the lender on or after July 1, 2002, and subsequently paid as a claim by the guarantor, are permanently assigned to the Department. The Department then determines if the certification and information provided by the borrower support the conclusion that the borrower meets the criteria for a total and permanent disability discharge. If the Department determines that the certification and information provided by the borrower do not support the conclusion that the borrower meets the criteria for a total and permanent disability discharge, the Department notifies the borrower that the application for a total and permanent disability discharge has been denied and that the loan is due and payable under the terms of the promissory note.

If the Department makes an initial determination that the borrower is totally and permanently disabled, the Department notifies the borrower that the loan is conditionally discharged and that the conditional discharge period will last for up to 3 years after the date the borrower became totally and permanently disabled, as certified by the physician. The Department's notification specifies that all or part of the 3-year period may predate the Department's initial determination, and identifies the following conditions that apply during the 3-year conditional discharge period:

- The borrower is not required to make any payments on the loan.
- The borrower is not considered delinquent or in default on the loan, unless the borrower was delinquent or in default at the time the conditional discharge was granted.
- The borrower must promptly notify the Department of any changes in address or phone number.
- The borrower must notify the Department if his or her annual earnings from employment exceed 100 percent of the poverty line for a family of two.
- The borrower must provide the Department, upon request, with additional documentation or information related to the borrower's eligibility for a total and permanent disability discharge.

- The borrower must not receive a new loan under the Perkins, FFEL, or Direct Loan Programs, except for a FFELP or Direct Consolidation loan that does not include any loans that are in a conditional discharge status.

The Department also notifies the borrower that, if at any time during the 3-year conditional discharge period the borrower does not continue to meet the eligibility requirements for a total and permanent disability discharge, the Department will resume collection activity on the loan but will not require the borrower to pay any interest that accrued on the loan from the date of the initial determination of total and permanent disability through the end of the conditional discharge period.
[§682.402(c)(1)(ii); §682.402(c)(11) through (16)]

#### Timely Filing Deadline for Total and Permanent Disability Claims

A lender must file a disability claim within 60 days of receiving the physician's certification. If a disability claim is not filed by the 60th day, the guarantor will still purchase the claim—unless prior servicing violations were not cured appropriately. However, the claim will be subject to an interest penalty, and the lender will be required to repay all interest benefits and special allowance payments for amounts received or otherwise payable after the expiration of the 60-day deadline.
[§682.402(g)(2)(i)]

Some guarantors have additional or alternative requirements regarding documentation for total and permanent disability claims. These requirements are noted in appendix C.

#### Notification Requirements after Claim Filing

If the guarantor determines that the borrower is eligible, the guarantor pays the total and permanent disability claim to the lender. After the lender receives payment of the total and permanent disability claim, the lender must notify the borrower that the loan will be assigned to the Department for determination of eligibility for a total and permanent disability discharge.

If the guarantor determines that the borrower is not eligible, the claim will be returned to the lender with an explanation of the reason for the denial. The lender must notify the borrower that the application for a disability discharge has been denied, provide the basis for the denial, and inform the borrower that the lender will resume collection on the loan.
[§682.402(c)(7)and (8)]

#### Treatment of Payments

If the lender receives a payment from or on behalf of the borrower after a total and permanent disability claim has been filed but before the lender receives the claim payment, the lender must hold the borrower's payment. After the lender receives the claim payment, the lender must forward the borrower payment to the guarantor.
[§682.402(c)(9)]

~~At the time the lender forwards the borrower payment to the guarantor, the lender must notify the borrower or other party who sent the payment that there is no obligation to make further payments, unless otherwise directed. [DCL GEN-02-03]~~[1]

## 12.8.F Unpaid Refund

The Higher Education Act provides relief for borrowers who are entitled to, but did not receive, refunds from their respective schools. Borrowers who meet the criteria outlined in this subsection may be eligible to have a loan discharged, in full or in part.

To qualify for an unpaid refund discharge, a borrower must complete, certify, and submit to his or her lender or guarantor a written request and a sworn statement (notarization is not required), made under penalty of perjury, that declares the following:

- The borrower (or the student for whom a parent obtained a PLUS loan) received any part of the proceeds of the FFELP loan on or after January 1, 1986, to attend school.
- The borrower (or the student), within a time frame that entitled the borrower to a refund, withdrew from, was terminated from, or did not attend the school.
- The borrower (or the student) did not receive the benefit of a refund to which the borrower was entitled either from the school or from a third party, such as a holder of a performance bond or a tuition recovery program.

The borrower's request must also include the following:

- A statement of whether the borrower has any other request for discharge pending for this loan, in full or in part.

1. Policy 707 (Batch 107), approved October 16, 2003

- A statement that the borrower agrees to provide, upon request by the Department or the Department's designee other documentation reasonably available to the borrower demonstrating that the borrower meets the qualifications for an unpaid refund discharge.

- A statement that the borrower agrees to cooperate with the Department or the Department's designee in enforcement actions and to transfer to the Department any right to recovery against a third party.

- A statement that the information provided on the request is true and accurate.
  [§682.402(l)(4)]

The guarantor may, with the Department's consent, grant an unpaid refund discharge without a borrower's request if the guarantor determines, based on information in the guarantor's possession, that the borrower qualifies for a discharge.

When a borrower receives a discharge under the unpaid refund provisions, the discharge amount will include other costs associated with the portion of the loan discharged (including accrued interest, late charges, collection costs, origination fees, and guarantee fees). If the total discharge amount exceeds the current outstanding balance of the loan, the lender must refund that excess amount to the borrower. [§682.402(l)(3)]

### Procedures for Discharging Loans

*Borrower's Request*

If the lender learns that an open school did not pay a required refund, the lender must provide the borrower a discharge request form and an explanation of the qualifications and procedures for obtaining a discharge. The lender also must promptly suspend any collection activities on the loan for at least 60 days, or until the lender receives the guarantor's determination, whichever is earlier.

In some cases, the guarantor will send the request form to the lender. The lender will then forward the form to the borrower. In other cases, the guarantor may mail the form directly to potentially eligible borrowers and notify the lender of this action. In such cases, the guarantor also may have the borrower return the request form directly to the guarantor for a determination of eligibility. The guarantor will notify the lender of the borrower's eligibility or ineligibility for discharge of the loan.

*Processing the Borrower's Request*

When the borrower submits the discharge request to the lender, the lender must review the request to determine whether it appears to be complete. If the request appears to be complete, the lender must provide the request and all pertinent information related to the borrower's qualification for discharge to the guarantor, including the borrower's (or student's, as applicable) last date of attendance, if it is available. See subsection 4.7.C for school requirements. [§682.402(m)]

If the lender determines that information contained in its files conflicts with the information provided by the borrower, the lender must notify the guarantor. The guarantor will use the most reliable information available to determine eligibility and the appropriate payment of the refund amount.

If the lender receives the borrower's completed discharge request within 60 days of the date on which the lender sent the request to the borrower, the lender must extend its suspension of collection activities until the date the lender receives a response from the guarantor denying the discharge or paying the unpaid refund amount. If the request is denied, the lender must resume collection activities and grant a forbearance for the period during which collection activities were suspended. Any interest accrued and not paid during this period may be capitalized.

If the lender does not receive the borrower's completed discharge request within 60 days of the date on which the lender sent the request to the borrower, the lender must resume collection activities and grant a forbearance for the period when collection activities were suspended. Any interest accrued and not paid during this period may be capitalized.

*Discharge Approvals*

If a school has closed, the guarantor will discharge a borrower's (and any endorser's) obligation to repay an amount equal to the amount of the unpaid refund, including any accrued interest and other charges (late charges, collection costs, origination fees, and guarantee fees) associated with the unpaid refund that should have been made by the school.
[§682.402(l)(1); §682.402(n) and (o)]

If a school remains open, the guarantor will discharge a borrower's (and any endorser's) obligation to repay an amount equal to the amount of the unpaid refund, including any accrued interest and other charges (late charges,

collection costs, origination fees, and guarantee fees) associated with the unpaid refund that should have been made by the school, if both of the following criteria are met:

- The borrower (or the student) has ceased to attend the school that owes the refund.
- The guarantor receives documentation regarding the refund, and the borrower and the guarantor have been unable to resolve the unpaid refund with the school within 120 days from the date the guarantor receives a completed request. See subsection 4.7.C for school requirements.
  [§682.402(l)(2); §682.402(n), (o), and (p)]

The lender or guarantor must ensure that the discharge is reported to all credit bureaus that the lender or guarantor had previously reported information on the loan, such that any adverse credit history associated with the amount discharged is removed.
[§682.402(l)(3)]

If the discharge results in a paid-in-full status on the loan and the lender subsequently receives a payment on that loan, the lender must promptly return those funds to the sender. At the same time, the lender must notify the borrower or the borrower's representative that there is no further obligation to repay the loan. If the borrower or the borrower's representative continues to send payments after the notice is given, all of those payments must be forwarded to the Department. In the case of a tuition recovery fund where the sender is required to make payment, those payments must also be forwarded to the Department. If the discharge does not result in a paid-in-full status, any payments received must be applied to the remaining debt.
[§682.402(q)]

*Discharge Denials*

If the guarantor denies a borrower's request for an unpaid refund discharge, the guarantor or the lender must notify the borrower in writing, within 30 days of the guarantor's determination, of the reason for the determination and of the borrower's right to request a review of the determination. If the guarantor notifies the borrower, the guarantor will inform the lender.

The lender must resume collection activities and grant a forbearance for the period when collection activities were suspended. Any interest accrued and not paid during this period may be capitalized.

If the borrower later submits additional supporting documentation that was not considered in any prior determination, the guarantor will notify the lender to suspend collection activities until the date the lender receives a response from the guarantor either denying the discharge or paying the unpaid refund amount. The guarantor will review the additional documentation and make a determination of the borrower's eligibility for discharge within 30 days of receiving the additional documentation.

If the guarantor upholds its decision to deny the discharge, the guarantor or the lender must again notify the borrower in writing, within 30 days of the determination, of the reason for the determination and of the borrower's right to request a review of the determination. The lender must again resume collection activities and grant a forbearance for the period when collection activities were suspended. Any interest accrued and not paid during this period may be capitalized.
[§682.402(l)(5)(vii)]

## 12.9 Forgiveness

Loan forgiveness is the release of a borrower's obligation to repay a loan, either in whole or in part, as a result of public service provided by the borrower. Congress has authorized two programs that provide loan forgiveness to qualified FFELP borrowers. Both of these programs and their corresponding borrower eligibility criteria are outlined in this section.

### 12.9.A Loan Forgiveness Demonstration Program for Child Care Providers

The Loan Forgiveness Demonstration Program for Child Care Providers is intended to bring more highly trained individuals into the early child care profession and to retain those providers for longer periods of time. Loan forgiveness under this demonstration program is contingent upon the availability of annual appropriations. Under this ~~demonstration~~ program, the Department ~~would~~ repays up to 100% of a borrower's eligible Stafford loan obligations. For the purpose of this program, the term "child care services" is defined as activities and services provided for the education and care of children from birth through age 5.

~~If the program is implemented,~~ A borrower~~s~~ must meet the following criteria to qualify for this forgiveness program:[1]

- The borrower must be a "new borrower" on or after October 8, 1998.

1. Policy 717 (Batch 108), approved November 20, 2003

- The borrower's eligible loan(s) must have been made before the beginning of the borrower's qualifying child care service.

- The borrower must ~~complete~~ have received an associate's or bachelor's degree in early childhood education after October 7, 1998. This field is defined as education in the areas of early child education, child care, or any other educational area related to child care that the Department determines to be appropriate.

- The borrower must obtain employment in a child care facility, defined as a facility, including a home, that provides child care services and meets the applicable state or local government licensing, certification, approval, or registration requirements, if any.

- The borrower must work full-time as a child care provider in a low-income community for the two consecutive years ~~and~~ immediately preceding the year~~s~~ during which forgiveness is requested.~~in a~~ A low-income community~~,~~ is defined as ~~a community~~ one in which at least 70% of households within the community earn less than 85% of the state's median household income.

If the borrower qualifies, the Department will pay—on a first-come, first-served basis, subject to the availability of funds—a percentage of the total amount of all eligible loans (excluding PLUS and Consolidation Loans) at the rate of:

20% after completion of the 2nd year
20% after completion of the 3rd year
30% after completion of the 4th year
30% after completion of the 5th year

The Department will also pay a proportionate amount of the interest that accrues each year.

If an individual not participating in this program returns to school, after initially graduating from school, to obtain an associate or baccalaureate degree in early childhood education, the student may apply to the Department for repayment under this forgiveness program of qualified loans received for a maximum of two academic years when the student returned to school. Repayment by the Department will be made in accordance with the preceding rate schedule.

The Department will give loan repayment priority to borrowers who received forgiveness in the prior year. No borrower may, for the same service, receive a benefit under both this Loan Forgiveness Program for Child Care Providers and subtitle D of Title I of the National and Community Service Act of 1990.

Qualified borrowers may request loan forgiveness at the end of the second and each subsequent year of eligible child care employment by submitting a completed~~ing~~ ~~an~~ Child Care Provider Loan Forgiveness ~~a~~Application to the Department and providing any supporting documentation ~~as required by~~ the Department requires. The Department will determine the borrower's eligibility and notify the borrower of the amount that is being forgiven (see appendix D for Department of Education contact information specific to this program). During the period of eligible employment, a borrower may request a forbearance by submitting a completed Child Care Provider Loan Forgiveness Forbearance Form to the lender (see subsection 10.22.C). ~~t~~The lender must grant the borrower a forbearance unless the borrower qualifies for a deferment.

Receipt of a benefit under this program does not entitle the borrower to a refund of payments made on the loan. [HEA 428K; *Federal Register* dated August 29, 2002]

~~*As of this printing, processes and procedures for applying for loan forgiveness have not been defined, but are being addressed by the community in its discussions with the Department.*~~[1]

## 12.9.B Teacher Loan Forgiveness Program

The Teacher Loan Forgiveness Program is intended to encourage individuals to enter and continue in the teaching profession in certain eligible elementary and secondary schools that serve low-income families. Under this program, the Department repays all or a portion of a borrower's Stafford loan obligations, and Consolidation loan obligations to the extent that a Consolidation loan repaid a borrower's Stafford loan(s). To be eligible for this forgiveness program, a borrower must meet the following criteria:

- The borrower must be a "new borrower" on or after October 1, 1998.

1. Policy 717 (Batch 108), approved November 20, 2003

- The borrower must have been employed as a full-time teacher for 5 consecutive, complete academic years ~~in~~ at a qualified school, as certified by the chief administrative officer at that school. A qualified school is one that meets all of the following criteria:

  - Is in a school district that qualifies for funds under Title I of the Elementary and Secondary Education Act of 1965, as amended.

  - Has been selected by the Department based on a determination that more than 30 percent of the school's total enrollment is made up of children who qualify for services provided under Title I.

  - Is listed in the *Annual Directory of Designated Low-Income Schools for Teacher Cancellation Benefits*. (If this directory is not available before May 1 of any year, the previous year's directory may be used.)

  A lender should not consider the time that a borrower is on active duty as a result of a military mobilization as an interruption in the borrower's required teaching service. This applies to a borrower who is a member of a reserve component of the Armed Forces and is called or ordered to active duty for more than 30 days, and to a borrower who is a regular active duty member of the Armed Forces and is reassigned to a different duty station for more than 30 days.[1]

- If the school where the borrower is employed meets the eligibility criteria for any year of the borrower's employment, all subsequent years continue to qualify the borrower even if the school is no longer eligible. However, if the borrower is initially employed by a school that does not meet the criteria and the school later qualifies, the borrower's 5 qualified years of service begin when the school meets the eligibility criteria.

- If employed as an elementary school teacher, the borrower must have demonstrated knowledge and teaching skills in reading, writing, mathematics, and other areas of the school's curriculum, as certified by the chief administrative officer of the school at which the borrower is employed.

- If employed as a secondary school teacher, the borrower must be teaching a subject which is relevant to the borrower's academic major, as certified by the chief administrative officer of the secondary school at which the borrower is employed.

- One of the 5 years of qualifying service must be performed after the 1997-1998 academic year.

- A borrower who is in default on a loan(s) for which the borrower seeks forgiveness must have made satisfactory repayment arrangements on the defaulted loan(s) to reinstate Title IV aid eligibility. See subsection 5.2.E.

The loan for which forgiveness is sought must have been made before the end of the 5th year of qualifying teaching service.

Completion of one-half of an academic year is considered to be one academic year if the borrower's employer considers the borrower to have fulfilled his or her contract requirements for the academic year for the purposes of salary increases, tenure, and retirement, and the borrower is unable to complete the academic year due to any one of the following:

- A return to postsecondary education on at least a half-time basis in a program directly related to the borrower's teaching service.

- A condition covered under the Family and Medical Leave Act.

- An order to active duty status for more than 30 days.

A break in the borrower's teaching service for any one of the above reasons (even if not counted as part of an eligible academic year for the purpose of the discharge), along with the time required to return to qualifying teaching service at the beginning of the next regularly scheduled academic year, is not considered a break in the required 5 consecutive years of service.

For the purpose of the Teacher Loan Forgiveness Program, the following definitions apply:

- An academic year means one complete school year at the same school, or two complete and consecutive half-years from different school years at either the same or different schools. Half-years exclude summer and generally fall within a 12-month period. For schools

1. Policy 708 (Batch 107), approved October 16, 2003

that have a year-round program of instruction, a minimum of 9 months is considered to comprise an academic year.

- Full time means the standard used by a state in defining full-time employment as a teacher. For a borrower teaching in more than one school, the determination of full time is based on the combination of all qualifying employment. A borrower may combine service at multiple qualifying schools to equal full-time teaching service.

- Elementary school means a public or nonprofit private school that provides elementary education as determined by state law or the Department if that school is not in a state.

- Secondary school means a public or nonprofit private school that provides secondary education as determined by state law or the Department if the school is not in a state.

- Teacher means a person who provides direct classroom teaching or classroom-type teaching in a non-classroom setting, including special education teachers.

The Department will repay, on behalf of a qualified borrower, no more than a combined total of $5,000 under both the FFELP and FDLP for outstanding principal and accrued interest on his or her qualifying Stafford loan(s) (or the outstanding portion of a Consolidation loan used to repay a qualifying Stafford loan(s)) at the end of the 5th complete year of teaching. Receipt of a benefit under this program does not entitle the borrower to a refund of any payments made on the loan(s).

A borrower who completes the qualifying teaching service may request loan forgiveness by completing a Teacher Loan Forgiveness Application and forwarding it to the lender or guarantor. The lender must forward the borrower's completed application, including any supporting documentation, to the guarantor no later than 60 days after its receipt. After the guarantor notifies the lender of its determination of the borrower's eligibility for loan forgiveness, the lender must inform the borrower of the determination within 30 days. If loan forgiveness is granted and a loan balance remains, the lender must also provide the borrower with information regarding any new repayment terms.

If the lender files a request for payment later than 60 days after it receives the completed Teacher Loan Forgiveness Application, the lender must repay all interest and special allowance received on the forgiven loan amount for periods after the expiration of the 60-day filing period. The lender is prohibited from collecting this interest from the borrower.

No borrower may, for the same service, receive benefit under both the Teacher Loan Forgiveness Program and subtitle D of Title I of the National and Community Service Act of 1990.
[HEA 428J; HEA 460; §682.215]

~~*As of this printing, procedures for applying for the Teacher Loan Forgiveness Program have not been defined, but are being addressed by the community in its discussions with the Department.*~~[1]

1. Policy 718 (Batch 108), approved November 20, 2003

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# 13 Violations, Penalties, and Cures


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Chapter 13 describes the penalties that will be assessed if a lender incurs violations, allows gaps to occur during the performance of due diligence activities, or fails to file a claim in a timely manner. Also discussed are the applicable cure procedures a lender may perform in order to reinstate a guarantee that has been lost as a result of such violations or gaps, to refile a claim, or both, as is the case upon completion of the intensive collection activities (ICA)/ location cure outlined in section 13.6.
[§682, Appendix D]

## 13.1 Due Diligence Violations

If a lender fails to perform a required due diligence activity within the specified time frame, the failure is considered a violation. Due diligence violations include, but are not limited to, the lender's failure to perform any of the following activities in a timely manner:

- Make a required telephone contact or diligent effort to contact the borrower.
- Send a required collection letter.
- Request default aversion assistance from the guarantor as required.
- Conduct a skip tracing activity within the prescribed time frame.
- Establish a first payment due date.
- Provide a payment history.

### 13.1.A Violations Due to Late or Missed Collection Efforts

For purposes of assessing due diligence violations, only violations that result from collection activities that were 6 days or more late (21 days or more in the case of a transfer) are counted. Although violations of 1 to 5 days do not result in penalties, they should be avoided. If the lender does not perform a required due diligence activity or performs it 6 days or more late (21 days or more in the case of a transfer), the violation will result in a penalty to the lender or cancellation of the loan's guarantee.

For due diligence purposes, the regulations define "transfer" as any action (such as the sale of a loan) that results in a change of the system used to monitor or conduct collection activities on the loan.

Unless a due diligence violation occurs during the conversion to repayment, the violation will be excused if the borrower's loan is subsequently brought current before the 270th day of delinquency corresponding to the period during which the violation occurred. The borrower's loan may be brought current by payment, deferment, forbearance, or any combination of these elements.

A payment received on the borrower's behalf, a signed repayment agreement, or a signed forbearance that contains language reaffirming the borrower's intent to pay his or her loan will cure all curable violations. However, the granting of a deferment or forbearance alone cannot cure a loan if the lender incurs due diligence violations sufficient to cause a loss of guarantee on the loan.

### 13.1.B Violations Due to Late Conversion to Repayment

Due diligence violations resulting from a lender's failure to convert the loan to repayment within the prescribed time frame may not be excused simply by bringing the loan current. The lender may still attempt to collect the interest that accrued from the repayment start date to the first payment due date by capitalizing and disclosing such interest to the borrower. However, the guarantor will not reimburse the lender for the unpaid uninsured interest if the violation is cured and a claim is subsequently submitted on the loan.

### 13.1.C Violations Due to Missing Payment History

A guarantor views a period of missing payment history as a serious due diligence violation that must be cured, regardless of the length of the period. A loss of guarantee on a loan will result during any period for which all, or a portion of, the payment history is missing. Although the lender is not required to reconstruct the missing payment history, the lender may deem it necessary in the event a borrower disputes the balance of the loan. For information on cures for missing payment history, see subsection 13.5.C.

Some guarantors have alternate policies regarding the acceptability of missing payment history cures. These policies are noted in appendix C.

## 13.1.D
## Violations Due to Gaps in Due Diligence

Intervals between collection activities are called gaps. Permitting too long of a period between collection activities—thus, too long of a "gap"—creates a violation for which the lender may incur penalties, which may include the loss of the loan's guarantee.

Due diligence gaps may occur beginning the day after one of the following dates:

- The payment due date of the loan, unless the borrower's address is unknown.
- The date the last payment was received on a loan that remains delinquent.
- The date the lender receives a new valid address for a delinquent borrower.
- The date the lender receives a new valid telephone number for a delinquent borrower.
- The date the last collection activity, including skip tracing efforts, was performed.
- The date on which the lender received notice of a dishonored check that had been submitted as payment on the borrower's account.
- The ending date of an authorized deferment or forbearance period on a delinquent loan.
- The date the lender determined that it no longer had a valid address.
  [§682.411(j)(1)]

Due diligence gaps end on the earliest of:

- The day on which the lender receives the first subsequent payment on behalf of the borrower.
- The day the lender receives a completed request for a deferment or forbearance.
- The day on which the lender begins the first subsequent collection activity, including skip tracing activities to obtain a valid address or telephone number for the borrower.
- The day on which the lender receives written communication from the borrower relating to the borrower's account.
- The date the loan defaults.
  [§682.411(j)(2)]

A gap of 46 days or more (61 days or more in the case of a transfer) between collection activities will result in the cancellation of the guarantee on the loan. The cancellation is effective from the date of the earliest unexcused violation.
[§682.411(j)]

## 13.2
## Timely Claim Filing Violations

Lenders are required to file claims within prescribed time frames, based on type of claim being filed. A lender will incur a timely filing violation if it fails to submit:

- A default claim by the 360th day of delinquency.
  [§682.406(a)(5)]
- A death claim within 60 days after receiving the borrower's or student's death certificate or other documentation supporting the discharge request that formed the basis for the determination of death.
  [§682.402(g)(2)(i)]
- A disability claim within 60 days after receiving the physician's certification of the borrower's total and permanent disability.
  [§682.402(g)(2)(i)]
- A bankruptcy claim within 30 days after receiving notification that the borrower has filed a bankruptcy petition—unless the lender receives information indicating that the loan may be determined to be dischargeable due to undue hardship. If the loan is dischargeable due to undue hardship, the lender must file a bankruptcy claim within 15 days of receiving that notification or, if the lender secured an extension of time within which to respond, 25 days before the expiration of that extended period.
  [§682.402(g)(2)(iv)]
- An ineligible borrower claim within 120 days after the date on which the final demand letter was mailed to the borrower and the borrower did not respond.
  [§682.406(a)(5); §682.412(e)]

- A closed school claim within 60 days after receiving the borrower's written request for discharge. [§682.402(g)(2)(ii)]

- A false certification claim within 60 days after receiving the borrower's written request for discharge. [§682.402(g)(2)(iii)]

If a guarantee is canceled as the result of a timely filing violation, the cancellation is effective on the date the filing deadline expires.

## 13.3 Penalties for Due Diligence Violations

This section outlines the penalties for the due diligence violations incurred on claims filed due to a borrower's default and on claims filed due to reasons other than default.

## 13.3.A Default Claims

If there are no due diligence violations of 6 days or more (21 days or more in the case of a transfer) and no gap of 46 days or more (61 days or more in the case of a transfer), the guarantor will purchase a claim on the loan and the lender will not incur an interest penalty. This provision is applicable to all time frames and activities described in 34 CFR 682.411.

### Due Diligence Violation and Gap Penalties

The penalties of interest limitation and guarantee cancellation on loans that have incurred due diligence violations and/or gaps are as follows:

1. If there are one or two due diligence violations of 6 days or more each (21 days more in the case of a transfer) and no gap of 46 days or more (61 days or more in the case of a transfer) and the lender completed all the required collection activities before the claim filing deadline, the activities will be considered to have been made up. However, any made-up collection activity for an endorser will not be assessed a violation (see subsection 11.4.E). The guarantor will calculate the purchase of the claim on the outstanding principal and the interest that accrued through the date of default. Interest benefits and special allowance are limited to the amounts that accrued through the date of default; the lender must make appropriate adjustments to its ED Form 799 billing.

2. If there are one or two due diligence violations of 6 days or more each (21 days or more in the case of a transfer) and no gap of 46 days or more (61 days or more in the case of a transfer), but the lender did not complete the required collection activities before the claim filing deadline, the guarantor will calculate (except as noted in the following paragraph) the purchase of the claim based on the outstanding principal balance and the interest that accrued through the 90th day before default. Interest benefits and special allowance are limited to the amounts that accrued through the 90th day before default; the lender must make appropriate adjustments to its ED Form 799 billings.

   *If the failure to submit a request for default aversion assistance by the 330th day of delinquency is one of the due diligence violations under item 2 or 3 above, the guarantor will purchase the claim. However, the lender will not be entitled to receive interest, interest benefits, and special allowance for the most recent 270 days preceding the date on which the loan defaulted. The lender should make the appropriate adjustments to its ED Form 799 billings.*

3. If there are three or more due diligence violations of 6 days or more each (21 days or more in the case of a transfer) and no gap of 46 days or more (61 days or more in the case of a transfer), the guarantee on the loan will be canceled effective with the date of the earliest unexcused violation. The lender may cure the loan but must immediately stop billing the Department for interest benefits and special allowance payments and must refund any interest benefits and special allowance payments received since the date of the earliest unexcused violation. The earliest unexcused violation date is the day after the date of default. See subsection 13.5.B for cure procedures.

4. If there is a gap of 46 days or more (61 days or more in the case of a transfer), the guarantee on the loan will be canceled. The lender may cure the loan but must immediately stop billing the Department for interest benefits and special allowance payments and must refund any interest benefits and special allowance payments received since the date of the earliest unexcused violation. The earliest unexcused violation date is the 46th day (or 61st day in the case of a transfer) following the date of the last collection activity that started the gap. See subsection 13.5.B for cure procedures.

5. Any period for which all or a portion of the payment history of a loan is missing is treated as a serious due diligence violation—one that results in a loss of guarantee on the loan. The lender also loses the right to collect interest benefits and special allowance payments from the scheduled date of the earliest unrecorded payment until the violation is cured (see subsection 13.5.C).

6. If the lender fails to establish a first payment due date within the time frames specified (see section 9.5), the lender may incur a violation. If the actual first due date is 46 days or more after the latest date on which the due date should have been set, the loan loses its insurance. The lender must refund special allowance received for the period beginning 46 days after the latest date on which the first due date should have been established. [§682, Appendix D; DCL 96-L-186/96-G-287, Q&As #47 and #62]

Some guarantors have additional or alternate requirements regarding penalties for due diligence violations and gaps. These requirements are noted in appendix C.

#### Address Skip Tracing Penalties

If a lender did not initiate address skip tracing within 10 days of the date the lender learned that it did not know the correct address of the borrower but does complete all required activities before the date of default and has no gap of 46 days or more, one due diligence violation will be assessed. The guarantor will purchase outstanding interest that accrued through the date of default.

If the lender fails to complete skip tracing activities by the date of default but does complete all required activities before a timely claim is filed and has no gap of 46 days or more, one due diligence violation will be assessed. The guarantor will purchase outstanding interest that accrued through the date of default.

If the lender both fails to initiate address skip tracing within the 10-day time frame and fails to complete skip tracing activities by the date of default but does complete all required activities before a timely claim is filed and has no gap of 46 days or more, only one due diligence violation will be assessed. The guarantor will purchase outstanding interest that accrued through the date of default.

If a lender performs some—but not all—required skip tracing activities and has no gap of 46 days or more, regardless of whether or not the address skip tracing was initiated within 10 days of the date the lender learned that it did not know the correct address for the borrower, one due diligence violation will be assessed and the guarantor will purchase outstanding interest that accrued through the 90th day before default.

If no skip tracing activity is performed, the guarantor will return the claim for loss of guarantee. If the lender completes the skip tracing requirements and the claim is refiled within the time frames associated with the claim return (see section 13.3), the guarantor will assess penalties as follows:

- If all required skip tracing activities are completed, one due diligence violation will be assessed and the guarantor will purchase outstanding interest that accrued through the date of default.

- If some—but not all—required skip tracing activities are completed, two due diligence violations will be assessed (one for “untimely” completion of the skip tracing activities and one for the skip tracing activities being incomplete). The guarantor will purchase outstanding interest that accrued through the 90th day before default.

- If a claim is refiled with no skip tracing activity performed, three due diligence violations will be assessed, resulting in the cancellation of the guarantee.

#### Telephone Skip Tracing Penalties

If a lender performs some—but not all—required skip tracing activities and has no gap of 46 days or more, one due diligence violation will be assessed and the guarantor will purchase outstanding interest that accrued through the 90th day before default.

If no skip tracing activity is performed, the guarantor will return the claim for loss of guarantee. If the lender completes the skip tracing requirements and the claim is refiled within the time frames associated with the claim return (see section 13.3), the guarantor will assess penalties as follows:

- If all required skip tracing activities are completed, one due diligence violation will be assessed and the guarantor will purchase outstanding interest that accrued through the date of default.

- If some—but not all—required skip tracing activities are completed, two due diligence violations will be assessed (one for “untimely” completion of the skip tracing activities and one for the skip tracing activities

being incomplete). The guarantor will purchase outstanding interest that accrued through the 90th day before default.

- If a claim is refiled with no skip tracing activity performed, three due diligence violations will be assessed, resulting in the cancellation of the guarantee.

## 13.3.B Non-Default Claims

For loans on which a non-default claim is filed, the prior servicing violations may affect the amount of claim reimbursement to which the lender is entitled.

### Bankruptcy Claims

If a lender incurs a due diligence violation that results in a loss of guarantee and, as of the date it learned that the borrower filed bankruptcy, the violation is not yet cured, the lender may attempt to cure the violation only if the bankruptcy action has been concluded and the loan was not discharged, dismissed, or the bankruptcy action in which the loan was previously discharged has been reversed. If the violation is subsequently cured, interest benefits and special allowance will be limited to those amounts accruing through the date of the earliest unexcused violation and will restart on the date that the loan is cured. Under no circumstances will a guarantor purchase a bankruptcy claim if, before the lender determines that the borrower has filed a bankruptcy petition, the lender committed a due diligence violation that resulted in a loss of guarantee and that was not cured before receiving notification of the bankruptcy filing.

### Claims Filed by Exceptional Performers

In the case of a loan filed by a lender or servicer that has been designated an exceptional performer by the Department, no penalties will be assessed for due diligence violations.

### Closed School and False Certification Claims

For closed school and false certification claims, due diligence is not monitored. Therefore, no due diligence violations will be assessed.

### Death Claims

For a death claim, due diligence activities required before the date the lender determined that the borrower (or, in the case of a PLUS loan, the dependent student) died are reviewed and penalties are assessed according to subsection 13.3.A ~~there is no cure for due diligence violations~~. If ~~the~~ there are violations ~~are not cured before the date the lender receives notification of death~~ sufficient to result in the loss of the loan's guarantee and the guarantee is not reinstated before the date the lender determined that the borrower (or, in the case of a PLUS loan, the dependent student) died, the lender must discharge the loan—even though the loan balance will not be reimbursed by the guarantor.[1]

### Ineligible Borrower Claims

For ineligible borrower claims, ~~the only~~ due diligence is monitored from the date the lender receives notification that a ~~is ineligible~~ borrower ~~collection activity after notification~~ is ineligible (see subsection 11.4.F). Therefore, no ~~due diligence violations~~ penalties will be assessed for any ~~delinquency~~ due diligence violations preceding notification of ineligibility.

See subsection 13.4.A for information on timely filing violations.[2]

### Total and Permanent Disability Claims

For a total and permanent disability claim, due diligence activities required before the date the lender determined that the borrower became totally and permanently disabled are reviewed and penalties assessed according to subsection 13.3.A ~~there is no cure for due diligence violations~~. If ~~the~~ there are violations ~~are not cured before the date of the disability notification~~ sufficient to result in the loss of the loan's guarantee and the guarantee is not reinstated before the date the lender determined that the borrower became totally and permanently disabled, the lender must discharge the loan—even though the loan balance will not be reimbursed by the guarantor.[1]

## 13.3.C Determining the Date of the Earliest Unexcused Violation

If the guarantee on a loan is canceled because of a due diligence violation, the cancellation date will be the date of the earliest unexcused violation. The date of the earliest unexcused violation is:

- The 46th day after the last collection activity in cases where a lender permits a gap in collections activities of 46 or more days.

1. Policy 723 (Batch 108), approved November 20, 2003
2. Policy 711 (Batch 107), approved October 16, 2003

- The 271st day of delinquency if there exist three or more due diligence violations of 6 days or more.

- The 46th day after the latest date on which the first due date could have been established in cases where a lender failed to establish a timely first payment due date (see section 9.5 for information on establishing first payment due dates).

- The day after the latest date on which the claim could have been filed if the lender does not file a claim within the prescribed time frames.
  [DCL 96-L-186/96-G-287, Q&A #68]

Once the guarantee is lost, the lender must refund to the Department interest benefits and special allowance payments received on the loan since the date of the earliest unexcused violation. In other words, the lender must refund those interest benefits and special allowance payments received since the end of the delinquency period during which the lender first failed to perform timely a required collection activity.

## 13.4 Penalties for Timely Claim Filing Violations

Timely claim filing is important in facilitating the collection of defaulted FFELP loans and the orderly disposition of other claims. Accurate and timely records on a borrower's repayment history can impact a borrower's eligibility for future federal student aid, licenses, income tax refunds, and other significant benefits. Therefore, in order to protect borrowers as well as the federal fiscal interest and overall program integrity, lenders can be assessed penalties up to and including loss of the guarantee on a loan for failing to submit claim records on time.

### 13.4.A Original Filing Deadline

#### Bankruptcy Claims

Failure to submit a bankruptcy claim by the end of the applicable 30-day, 15-day, or 25-day filing deadline will result in permanent cancellation of the guarantee on the loan—unless the lender can demonstrate that *(a)* the bankruptcy action has concluded and the loan was not discharged, or *(b)* the bankruptcy action in which the loan was previously discharged has been reversed or dismissed. In either case, the lender need not cure the violation. The lender must return the loan to the status that would have existed had the bankruptcy action not occurred and resume servicing the loan. If the loan is returned to repayment status, the lender should grant an administrative forbearance to resolve any delinquency that exists at the time the loan reenters repayment.

The claim, if purchased, will be subject to an interest penalty, and the lender will be required to repay all interest benefits and special allowance payments for amounts received or otherwise payable from the expiration of the initial applicable 30-day, 15-day, or 25-day filing deadline through the earlier of the date on which the claim is filed as a different claim type or the date on which the loan regains its insurance. The loan is considered to regain its insurance on the date that the bankruptcy action concludes and the loan is not discharged or the date on which the discharge is reversed.
[DCL 96-L-186/96-G-287, Q&As #67 and #73]

#### Claims Filed by Exceptional Performers

No penalties will be assessed for timely filing violations in the case of a claim filed by a lender or servicer that has been designated an exceptional performer by the Department.

#### Closed School and False Certification Claims

If a lender does not file a closed school or false certification forgiveness claim within the required 60-day filing period, the guarantor will purchase the claim. However, the claim will be subject to an interest penalty, and the lender will be required to repay all interest benefits and special allowance payments for amounts received or otherwise payable after the 60-day filing period.

#### Death Claims

Although a lender must submit a death claim within the required 60-day time frame, failure to do so does not affect the guarantor's ability to collect on the loan. Therefore, if the lender did not incur violations resulting in a noncurable cancellation of the guarantee before determining that the borrower or student died, the guarantor will purchase the claim. However, interest will be limited to the amount that accrued through the 60-day filing period, subject to any interest penalties. The lender also will be required to repay all interest benefits and special allowance payments received on the loan for periods after the expiration of the 60-day filing period. If the lender incurs a timely claim filing or due diligence violation that results in the cancellation of the guarantee on the loan before the date it determined that the borrower or student died, the guarantor will cancel the guarantee on the loan and prohibit the lender from attempting to collect on the loan or curing the violation.

### Default Claims

Submission of a default claim between the 330th and 360th day of delinquency will result in loss of eligibility for special allowance beyond the 330th day of delinquency. Failure to submit a default claim by the 360th day of delinquency will result in cancellation of the guarantee on the loan. However, the lender may cure the violation and resubmit the claim if the default remains unresolved after the loan has been cured (see subsection 13.5.D).

### Ineligible Borrower Claims

If the lender does not submit an ineligible borrower claim within the specified 120-day time frame (see subsection 12.6.B), or does not mail the final demand letter in a timely manner (see subsection 11.4.F), the guarantor will purchase the claim. However, the claim will be subject to an interest penalty as follows:

- If the final demand letter is mailed timely but the claim is filed *untimely*, the guarantor will pay the claim, but interest will be limited to the amount accruing through the 120th day following the date the final demand letter is mailed.

- If the final demand letter is mailed *untimely*, interest will be limited to the amount accruing through the 180th day following the date the lender determines the borrower to be ineligible.

In all cases, the lender must repay any interest benefits paid by the U.S. Department of Education on the ineligible portion of the loan.

### Total and Permanent Disability Claims

If the lender does not file a disability claim within the required 60-day filing period, the guarantor will purchase the claim—provided the lender did not incur violations that resulted in a noncurable cancellation of the guarantee before receiving certification of the borrower's disability. However, the claim will be subject to an interest penalty, and the lender will be required to repay all interest benefits and special allowance payments for amounts received or otherwise payable after the 60-day filing period. If the lender incurs a timely claim filing or due diligence violation that results in the cancellation of the guarantee on the loan before the date it determined that the borrower became disabled, the guarantee on the loan will be canceled, and the lender will be prohibited from attempting to collect on the loan or curing the violation.

## 13.4.B Refile Deadline

### Bankruptcy Claims

Failure to refile a bankruptcy claim by the 30th day after the lender's receipt of the original return described in subsection 12.2.A will result in loss of eligibility for interest, interest benefits, and special allowance payments beyond such 30th day, provided the late refiling has not resulted in the guarantor missing any court-established deadlines for bankruptcy activity. If the late refiling has resulted in the guarantor missing any court-established deadlines for bankruptcy, the result will be permanent cancellation of the guarantee on the loan—unless the lender can demonstrate *(a)* that the bankruptcy action has concluded and the loan was not discharged or *(b)* that the bankruptcy action in which the loan was previously discharged has been reversed or dismissed. In either case, the lender need not cure the violation; however, the loan is not eligible for interest or special allowance from the timely refiling deadline through the date the bankruptcy action was discharged, dismissed, or reversed. The lender must return the loan to the status that would have existed had the bankruptcy action not occurred and resume servicing the loan. If the loan is returned to repayment status, the lender should grant an administrative forbearance on the loan to resolve any delinquency that exists at the time the loan reenters repayment.

### Claims Filed by Exceptional Performers

No penalties will be assessed for timely filing violations in the case of a claim filed by a lender or servicer that has been designated an exceptional performer by the Department.

### Closed School, Death, False Certification, Ineligible Borrower, and Total and Permanent Disability Claims

Failure to refile a closed school, death, false certification, ineligible borrower, or total and permanent disability claim by the 30th day after the lender's receipt of the original return will result in loss of eligibility for interest, interest benefits, and special allowance payments beyond such 30th day. If the lender does not refile the claim by the 60th day, the guarantor will pay the claim, but the lender's eligibility for interest subsidy and special allowance will end as of the 30th day after the lender's receipt of the original return.

A second or subsequent return by the guarantor for the *same* reason, will result in loss of eligibility for interest, interest benefits, and special allowance payments beyond the 30th day after the lender's receipt of the original return.

EXAMPLE
The lender receives a claim returned by the guarantor for a missing promissory note. The lender refiles the claim to the guarantor 15 days after its receipt of the returned claim, but fails to include the missing promissory note. The guarantor returns the same claim a second time for the missing promissory note. The lender refiles the claim to the guarantor 20 days after its receipt of the returned claim, this time including the requested promissory note. In this case, the lender has incurred loss of eligibility for interest, interest benefits, and special allowance payments beyond the 30th day after the lender's receipt of the original return.

A second or subsequent return by the guarantor for a *different* reason will result in no loss of eligibility for interest, interest benefits, and special allowance payments provided the lender refiles the claim on or before the 30th day after the lender's receipt of such second or subsequent return.

EXAMPLE
The lender receives a claim returned by the guarantor for documentation to support the borrower's total and permanent disability. The lender refiles the claim with the supporting documentation to the guarantor 15 days after its receipt of the returned claim. The guarantor returns the same claim a second time for a missing promissory note. The lender refiles the claim with the requested promissory note to the guarantor 20 days after its receipt of the returned claim. No loss of eligibility for interest, interest benefits, and special allowance payments is incurred for timely resubmission of the first and second returns.

#### Default Claims

The refiling of a default claim on the 31st through the 60th day inclusive after the lender's receipt of the original return will result in loss of eligibility for interest, interest benefits, and special allowance payments beyond the 30th day after the original return. Failure to refile the claim by the 60th day after the lender's receipt of the original return will result in cancellation of the guarantee on the loan. However, the lender may cure the violation and refile the claim if the default remains unresolved after the loan has been cured (see subsection 13.5.D).

A second or subsequent return by the guarantor for the same reason will result in loss of eligibility for interest, interest benefits, and special allowance payments beyond the 30th day after the lender's receipt of the original return, provided the original return was refiled on or before the 60-day refiling deadline. Failure to refile a second or subsequent return claim by the 60th day after the lender's receipt of such second or subsequent return will result in cancellation of the guarantee on the loan.
[DCL 96-G-287/96-L-186, Q&As #36 and #37]

EXAMPLE
The lender receives a claim returned by the guarantor for a missing promissory note. The lender refiles the claim to the guarantor 15 days after its receipt of the claim but fails to include the missing promissory note. The guarantor returns the same claim a second time for the missing promissory note. The lender refiles the claim to the guarantor 20 days after its receipt of the claim again, this time including the requested promissory note. In this case, the lender has incurred loss of eligibility for interest, interest benefits, and special allowance payments beyond the 30th day after the lender's receipt of the original return.

A second or subsequent return by the guarantor for a *different* reason will result in no loss of eligibility for interest, interest benefits, and special allowance payments provided the lender refiles the claim on or before the 30th day after its receipt of the second or subsequent return. Failure to refile a second or subsequent return claim by the 60th day after the lender's receipt of such second or subsequent return will result in cancellation of the guarantee on the loan.

EXAMPLE
The lender receives a claim returned by the guarantor for documentation supporting the lender's out-of-school date. The lender refiles the claim with the required documentation to the guarantor 15 days after its receipt of the claim. The guarantor returns the same claim a second time—this time for missing due diligence activities. The lender refiles the claim to the guarantor with the requested due diligence activities 20 days after its receipt of the returned claim. No loss of eligibility for interest, interest benefits, and special allowance payments are incurred for timely resubmission of the first and second return.

## 13.5 Cures and Reinstatement of the Guarantee

A lender may have the guarantee on a loan reinstated by curing the applicable violation, except in the circumstances noted in the preceding section 13.3. Upon reinstatement of a loan's guarantee, the lender is again eligible to receive claim payments, interest benefits, and special allowance payments on the loan; the lender is ineligible to receive these payments from the date of the first unexcused violation to the date of the cure. The date of the cure is the date the lender receives a new repayment agreement signed

by the borrower or one full payment. If the lender submits a default claim after the cure, the interest-paid-through date (IPT date) must be adjusted to exclude the amount of nonreinsured interest not paid by the borrower from the claim or, if the interest was capitalized, the amount of capitalized interest that is not insured.

### Defining a Cure

Unless the lender successfully obtains a signed repayment agreement or a full payment from the borrower before completing the intensive collection activities (ICA)/ location cure (see section 13.6), completing this cure does not result in reinstatement of the guarantee on the loan. A full payment is defined as a payment by the borrower or another person (other than the lender) on the borrower's behalf in an amount equal to or greater than the regularly scheduled payment amount required under the existing loan terms, exclusive of any forbearance agreement in force at the time of default.

The $5 tolerance is not applicable to a curing payment. For example, if the original repayment schedule called for $50 monthly payments, but a forbearance was in effect at the time of default that allowed the borrower to pay $25 monthly, a full payment would be considered $50 (in accordance with the original repayment agreement).

Further, a curing payment may be received in increments. If the guarantee is lost and the lender receives a partial payment equal to the amount of one full payment, the partial payment may constitute a full payment and the cure date may be considered the date on which the lender receives the payment that completes the full payment requirement.
[§682, Appendix D; DCL 96-L-186/96-G-287, Q&A #63]

For the lender's receipt of a new repayment agreement (original, photocopy, or facsimile) signed by the borrower to constitute a cure, both the lender and borrower must agree to the terms. Furthermore, the terms of the new agreement must comply with the applicable repayment limitation and minimum annual payment requirement. If the borrower signs the agreement but makes immaterial alterations (for example, changes to his or her name, Social Security number, or address), the lender must review the changes and make the necessary alterations to the account, but may consider the account cured.

If the borrower signs the agreement and makes material alterations (for example, changes to the repayment schedule information), the document does not generally constitute a cure. However, if the lender agrees to the material alterations, the signed agreement may be considered a cure.

If the lender receives a full payment or a new repayment agreement signed by the borrower, the guarantee on the loan is reinstated. The lender must treat the loan as current, establish a next payment due date that is no later than 60 days after the date the lender receives the signed repayment agreement or one full payment, and immediately resume servicing on the loan. The loan regains eligibility for interest benefits and special allowance payments from the date of the cure. Also, interest accrued from the date of the earliest unexcused violation through the guarantee reinstatement date may be capitalized through an administrative forbearance or cure forbearance. However, the lender will not be reimbursed for this amount of capitalized interest if it later submits a claim on the loan. The lender will be permitted to extend the applicable repayment period by the length of the cure forbearance.

### Requesting Reinstatement

The National Student Loan Data System (NSLDS) requires at least quarterly, or more frequently if the guarantor collects loan status changes more frequently, the reporting of the loss of a loan's guarantee and the reinstatement of the guarantee. Since some guarantors do not extract data from NSLDS reports as system updates, the lender must ensure that the guarantor is informed at the time each of the following events occur or are identified:

- The guarantee on a loan is lost.
- The guarantee on a loan is subsequently reinstated.

Should the lender subsequently file a claim with the guarantor on a cured loan, the lender must include the curing instrument or a legible copy of the curing instrument in the claim file.

### Timing

A lender may begin cure activities immediately upon discovery of a loss of guarantee. However, a lender must complete the prescribed cure activities or reinstate a loan's guarantee no more than 3 years from:

- The last date the loan could have been filed timely as a claim with the guarantor, if the claim was not filed.
- If the claim was filed, the date the guarantor returned the claim for loss of guarantee.

The prescribed cure activities are considered complete as of the date the lender receives a full payment or a signed repayment agreement or, in the case of ICA/location cure, on the date the default claim is filed. Failure to complete the prescribed activities or reinstate a loan's guarantee by the

end of the 3-year period will result in an irrevocable loss of the loan's reinsurance.
[DCL 96-L-186/96-G-287, Q&A #72]

## 13.5.A Inadvertent Cures

As a lender services a loan, violations may occur that would cause a loan to lose its guarantee. In some cases, these violations may go undetected. If the lender receives a payment or other curing instrument (e.g., a new repayment agreement signed by the borrower, or a forbearance form with repayment agreement included in the text signed by the borrower) after such a period, that payment or other curing instrument may inadvertently cure all prior violations. Such a situation is called an inadvertent cure. If the payment or other curing instrument is not used to bring the account current, the guarantor will review the claim based on the appropriate due diligence requirements.

## 13.5.B Cures for Due Diligence Violations and Gaps

If a loan's guarantee has been canceled as a result of due diligence violations or gaps, cure procedures must be performed if the lender wishes to reinstate the guarantee on the loan. The severity of the violations or gaps determines which cure is appropriate for the lender. If the lender has committed both due diligence and timely filing violations and the due diligence violations also require a cure, the lender must attempt to cure the loan according to the appropriate due diligence cure (rather than the cure for timely claim filing violations).

If there have been three violations of at least 6 days or more each (21 days or more in the case of a transfer) and no gaps of 46 days (61 days or more in the case of a transfer), the lender must meet one of the following requirements:

- Obtain a full payment.
- Obtain a new repayment agreement signed by the borrower.
- Locate the borrower and perform the intensive collection activities (ICA)/location cure described in section 13.6.

Completion of the ICA/location cure does not reinstate the loan's guarantee. However, the lender may file a default claim with the guarantor and if all applicable servicing requirements have been met, the lender will receive a claim payment with applicable interest penalties (see subsection 12.3.D).

If there have been more than three violations of at least 6 days or more each (21 days or more in the case of a transfer) or a gap of 46 days or more (61 days or more in the case of a transfer), the lender must meet one of the following requirements:

- Obtain a full payment.
- Obtain a new repayment agreement signed by the borrower.

If the lender obtains a full payment or a new repayment agreement signed by the borrower, the guarantee on the loan is reinstated. The lender must treat the loan as current and resume servicing the loan (see section 13.5).

Some guarantors have additional policies on curing due diligence violations. These policies are noted in appendix C.

## 13.5.C Cures for Missing Payment History

If the borrower does not dispute the amount owed for the missing period, the violation may be cured by the receipt of either one full payment or a new repayment agreement signed by the borrower that complies with the terms of the promissory note.

If the borrower disputes the amount owed for the missing period, the lender must do one of the following to reinstate the guarantee, in addition to curing the violation through the receipt of either a full payment or a new, signed repayment agreement:

- Provide adequate documentation to support the amount owed in accordance with the period of missing payment history. Adequate documentation may include:
  - Canceled checks for the missing payments.
  - A reconstructed payment history reflecting approximately the same ending principal balance that the borrower would owe if all payments were made on time and the borrower does not claim to have made prepayments.
  - A record of the missing payment history.

- Reach an agreement with the borrower in writing as to the correct amount owed. The signed repayment agreement may satisfy this requirement if it clearly states the balance owed. The lender may bill for interest benefits and special allowance only on the undisputed balance.

If the lender is unsuccessful in resolving the dispute (for example, it is unable to provide adequate documentation or reach an agreement with the borrower) but otherwise cures the violation by receiving a full payment or signed repayment agreement that does not include the amount owed, the guarantee will be reinstated on the undisputed amount.

The lender must refund to the Department interest benefits and special allowance payments received from the date of the earliest unexcused violation through the date of the cure. To make these adjustments, the lender must calculate the borrower's outstanding indebtedness for the period of missing payment history. As noted, the lender may need to reconstruct a payment history for the missing period but will not be required to include this reconstructed history in a claim file. If a claim is later filed on the loan, the lender may be required to include a statement certifying that the required billing adjustments have been made. The lender must ensure that it does not include in its claim payment request the amount of any repayment interest corresponding to the period of missing payment history.

Some guarantors have alternate policies regarding the acceptability of missing payment history cures. These policies are noted in appendix C.

## 13.5.D Cures for Timely Filing Violations

If a lender incurs a timely filing violation on a default claim, the lender may reinstate the guarantee through one of the following:

- The receipt of a full payment.
- The receipt of a new repayment agreement signed by the borrower.
- Successful completion of the intensive collection activities (ICA)/location cure (see section 13.6).

If the lender obtains a full payment or a new repayment agreement signed by the borrower, the guarantee on the loan is reinstated. As indicated in section 13.5, the lender must treat the loan as current, establish a next payment due date that is no later than 60 days after curing the violation, and immediately resume servicing of the loan. Interest benefits and special allowance will be reinstated as of the date of the cure.

If the lender performs the ICA/location cure but is not successful in obtaining a full payment or a new repayment agreement signed by the borrower, it must file a claim with the guarantor within 60 days of completing these activities. The guarantor will purchase the claim for the loan's outstanding principal balance, but interest will be limited to that accruing through the date of the timely filing deadline, subject to any further interest penalties or limitations that apply.

## 13.6 Intensive Collection Activities (ICA)/ Location Cures

Completion of the intensive collection activities (ICA)/ location cure does not reinstate a loan's guarantee. However, if the lender completes all of the required activities for an eligible borrower's loan, the default claim that is filed as part of step 6 (see next page) is purchased by the guarantor with an interest penalty if all applicable servicing requirements have been met. The lender must complete the following activities as part of the ICA/location cure:

1. Locate the borrower through certification of the borrower's location.

   The following documentation is the only acceptable evidence that the borrower has been located:

   - A postal or courier receipt, signed by the borrower no earlier than 15 days before the date on which the lender sent the new repayment agreement, indicating acceptance of correspondence from the lender by the borrower at the address shown on the receipt.
   - Documentation submitted by the lender showing the lender's name, lender identification number (LID), and the address of the lender; the borrower's name and Social Security number; and a certification of borrower location signed by an employee or agent of the lender certifying that:
     - On a specified date, an employee spoke with or received written communication from the borrower, parent, spouse, sibling, roommate, or neighbor of the borrower.

- The address and telephone number of the borrower was provided to the lender in the call or letter. If the borrower's address or telephone number was provided to the lender by someone other than the borrower, the lender also must certify that the new repayment agreement and collection letter sent as part of the intensive collection activities (ICA)/location cure was not returned as undeliverable as of the date the default claim is filed on the cured loan.

2. Send the borrower, within 15 days of locating the borrower, a new repayment agreement for the borrower to sign and a forceful collection letter describing the consequences of default and its potential effect on the borrower's credit rating. The borrower must be given 15 days to respond to the letter by either making a full payment or signing and returning the new repayment agreement.

3. Make a diligent attempt to contact the borrower by telephone within 5 days thereafter (if the borrower does not respond within the required 15-day time frame).

4. Make another diligent attempt to contact the borrower by telephone within 5 to 10 days of completing the activity described in item 3 above.

5. Send a forceful collection letter within 5 to 10 days after completing the telephone contact efforts described in item 4, demanding that the entire unpaid balance of the loan be repaid immediately. The letter also should warn the borrower that the lender will file a default claim with the guarantor if the borrower fails to contact the lender to make arrangements or repay the loan within 30 days of the date of the letter.

   There is no 5-day tolerance regarding performance of ICA/location cure.

6. File a default claim within 31 to 60 days after mailing the final collection letter described in item 5 (if the borrower fails to make a full payment or sign a new repayment agreement by the 30th day after the lender mails the final collection letter). If the guarantor purchases the claim, the amount of the claim payment will be calculated based on the amount of the outstanding principal and interest accrued through the date of the earliest unexcused violation. However, because the violation is not considered cured, the lender does not regain the right to collect (and thus must refund) interest benefits and special allowance payments that would otherwise have been payable from the date of the earliest unexcused violation before the guarantee cancellation date.

   If the borrower is located, the lender must include a copy of the certification of borrower location in any subsequent ICA/location claim file.

If the lender discovers that the borrower's telephone number is invalid while performing the ICA/location cure, the lender must attempt to obtain a valid number as it continues performing the remaining collection activities, as required in the ICA/location cure.

The lender must complete the entire cycle of collection activities required under this cure. If the lender has exhausted its efforts to obtain a valid number, telephone attempts to contact the borrower are not required, but the lender must send the required collection letters. The letters may be sent according to the regular ICA/location cure schedule (allowing for the time that would normally be allocated to telephone attempts) or the schedule may be shortened by omitting those times. In either case, the lender must indicate whether it obtained a valid telephone number for the borrower on the Certification of Borrower Location that is required upon locating the borrower.

# 14 Federal Consolidation Loans


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Chapter 14 highlights policies and procedures specific to Federal Consolidation loans. A borrower may obtain a Consolidation loan to merge several types of federal student loans with varying repayment terms into a single loan. Consolidation loans are also available to married couples, provided each person is eligible.

## 14.1 Lender Participation

To participate in the Federal Consolidation Loan Program, a lender must meet the following requirements:

- The lender must be an eligible lender under the FFELP (secondary markets may also be considered eligible lenders).
- The lender must sign an agreement to guarantee Federal Consolidation loans with a guarantor (this agreement may be a separate agreement or included as part of other agreements between the lender and the guarantor).
- The lender must maintain a certificate of comprehensive insurance coverage with the guarantor providing such coverage.
  [HEA 428C(b)]

▲ Lenders may contact individual guarantors for information on whether Consolidation loan agreements are separate from other lender agreements. See section 1.6 for contact information.

### 14.1.A Agreement to Guarantee Federal Consolidation Loans

The agreement to guarantee Federal Consolidation loans defines the terms and conditions under which the lender may make guaranteed Consolidation loans. This agreement is similar to the agreement that the lender must sign to participate in other loan programs with a guarantor (see subsection 3.3.A).

The lender must meet specific requirements in the agreement for Consolidation loan guarantees to remain in effect. By signing the agreement, the lender agrees to meet the following requirements:

- To exercise reasonable care and diligence in the making, servicing, and collecting of Consolidation loans.
- To comply with all applicable federal and state laws and regulations—as well as procedures required in federal regulations, this manual, guarantor bulletins, and Consolidation loan forms, applications, and agreements.
- To use an approved Consolidation loan application and promissory note.
- To secure information on the outstanding balance of each eligible loan to be consolidated before including it in the Consolidation loan.
- To pay the full proceeds of each outstanding loan to the appropriate holder(s).
- To pay a 0.5% origination fee to the Department on each Consolidation loan made. This fee may not be charged to the borrower.
  [HEA 438(d)]
- To promptly provide reports on other information that may be requested by the guarantor.
- To pay the Department a monthly rebate fee on Consolidation loans made on or after October 1, 1993, and held by the lender at month end (see section 14.7).
  [HEA 428C(f)]
- To make Consolidation loans without discriminating against an applicant. See below for information concerning nondiscrimination provisions.
  [HEA 428C(b)(6); DCL GEN-98-7/98-L-201/ 98-G-307]

Lenders must diligently service Consolidation loans in accordance with provisions applicable to other FFELP loans. Any failure to fulfill those requirements may result in a loss of the guarantee on the loan and a loss of eligibility for any interest subsidy payments that might otherwise apply (see section 14.6).

**Nondiscrimination Provisions and Permissible Practices**

Lenders must make Consolidation loans without discriminating against an applicant. For example, a lender must not discriminate against an applicant based on the number or type of eligible student loans the borrower wishes to consolidate, the type or category of school the borrower attended, the interest rate that will be charged to the borrower on the Consolidation loan, or the types of repayment schedules offered to the borrower. However, a lender may decline to consolidate Health Professions Student Loans (HPSL), including Loans for Disadvantaged Students (LDS), Nursing Student Loans (NSL), and Health Education Assistance Loans (HEAL).
[HEA 428C(b)(6)]

Although a lender is prohibited from establishing policies that result in discrimination against borrowers who wish to consolidate loans, the Department considers certain lender policies and practices *not* to be discriminatory. For example, a lender may do any of the following:

- Require the Consolidation loan applicant to have at least one loan currently held by the lender.
- Counsel borrowers on the consequences of consolidating certain types of loans (e.g., Perkins loans).
- Refuse to consolidate defaulted loans. However, if the lender elects to consolidate defaulted Title IV loans, the borrower must first make satisfactory arrangements with the loan holder to repay the defaulted loan, or agree to repay the Consolidation loan under an income-sensitive repayment schedule (see section 14.2).
[§682.201(c)(1)(i)(A)(3)]
- Refuse to make a single Consolidation loan to a married couple. However, a lender must ensure that it does not deny a loan based solely on marital status. For example, a lender, in establishing its policies, might choose not to make a single Consolidation loan to a married couple but would permit each eligible spouse to consolidate his or her loans separately.
- Refuse to make Consolidation loans below a predetermined minimum amount, provided the policy does not have the effect of discriminating against borrowers based on a prohibited reason.
- Require credit checks of Consolidation loan applicants.
- Decline to make a Consolidation loan if the lender was unable to obtain a guarantee.
[DCL GEN-98-7/98-L-201/98-G-307]

## 14.1.B Certificate of Comprehensive Insurance Coverage

A certificate of comprehensive insurance coverage will be finalized upon execution of an agreement to guarantee Federal Consolidation loans. The certificate functions as a "blanket guarantee" and includes the lender's insurance capacity. This capacity is the total dollar amount that the guarantor will insure for all Federal Consolidation loans made by the lender during the time the certificate is in effect.

The guarantor will alert the lender when the insurance capacity indicated on the certificate of comprehensive insurance coverage has been used. If a lender approaches its insurance capacity, the guarantor will review the lender's insurance capacity to determine if additional capacity is appropriate. If an increase in capacity is appropriate, the guarantor will send a letter of understanding to the lender to extend coverage.

Because lenders make Consolidation loans under a "blanket guarantee," guarantors do not issue guarantee disclosures for individual Federal Consolidation loans. Generally, the guarantor will provide a confirmation report to lenders that make Consolidation loans.

▲ Lenders may contact individual guarantors for information on whether confirmation reports are provided. See section 1.6 for contact information.

## 14.1.C Notifying the Guarantor

The lender is required to notify the guarantor of each Federal Consolidation loan it makes. The lender must report the making of a Consolidation loan in a format acceptable to the guarantor. When the guarantor receives the notification, it will record the loans under the lender's insurance capacity.

The lender must report to the guarantor that a Consolidation loan has been made within 60 days of the date on which the loan is initially disbursed. If a lender adds a loan within the 180-day add-on period or makes any other adjustment to the outstanding original balance of a Consolidation loan, the lender must report the new Consolidation loan information to the guarantor within 60 days of the date on which the additional loan funds are disbursed or the adjustment is made. If there is a data discrepancy, the lender will be granted an additional 60 days from the date the guarantor rejects the application (plus five days mail time) to provide additional or corrected information.

The guarantor reserves the right to take appropriate corrective action, including the imposition of interest penalties, if the lender fails to report the making of a Consolidation loan, fails to report the disbursement of additional funds, or fails to report any other adjustment of the outstanding original balance within 60 days after that activity occurs. Repeated or intentional noncompliance (including failure to reconcile) may result in the withdrawal of the loan guarantee.

▲ Lenders may contact individual guarantors to verify the acceptability of notification formats. See section 1.6 for contact information.

## 14.2 Borrower Eligibility and Underlying Loan Holder Requirements

To qualify for a Federal Consolidation loan, a borrower must meet the following eligibility criteria at the time he or she applies for the Consolidation loan:

- A borrower must be in the grace period or have entered repayment on each loan chosen for consolidation.

- If any Title IV loans being considered for consolidation are in default, the borrower must either make satisfactory repayment arrangements with the holder of each defaulted loan or agree to repay the consolidating lender under an income-sensitive repayment schedule. Satisfactory repayment arrangements for consolidation purposes are defined later in this section. The income-sensitive repayment schedule is described in subsection 9.8.C.

The following additional criteria must be met in order for a borrower to receive a Consolidation loan. By completing and signing the common Consolidation Loan Application and Promissory Note, the borrower certifies that he or she meets those eligibility criteria that are specifically required, by statute and regulations, to be certified. Separate certifications are not necessary.

- A borrower who has loan amounts that are ineligible due solely to the borrower's error must repay the ineligible amount in full prior to the consolidation of the borrower's loans (see section 5.14).

- A borrower must not be subject to a judgment secured through litigation or an order of administrative wage garnishment on a Title IV loan that is being considered for consolidation. If the judgment has been vacated or the wage garnishment order has been lifted, the loan is eligible for consolidation and eligible for inclusion in an existing Consolidation loan during the 180-day add-on period (see "Adding Loans After Consolidation" later in this section).
[HEA 428C(a)(3)(A)(i); §682.201(c)(1)(i)(B) and (C)]

- A borrower must certify that he or she does not have another Federal Consolidation loan application pending.

- A borrower must agree to notify the holder of address changes.

- A borrower must certify that he or she does not owe a refund on a Pell, SEOG, or LEAP grant and that all loans being consolidated were used to finance the education of the borrower, the borrower's spouse, or the borrower's child.

- Married couples may consolidate their eligible loans jointly if each borrower is eligible and agrees to be jointly and severally liable for the repayment of the loan, regardless of any change in marital status. In the case of a married couple, the loans of a spouse that are to be included in a Consolidation loan are considered eligible loans for the other spouse.
[§682.201(c)(2); §682.201(e)]

- If a borrower, or either spouse in the case of a married couple, has FFELP loans held by multiple lenders, consolidation may be requested from any participating consolidation lender, regardless of whether the consolidating lender is a holder of any of the borrowers' loans.

- 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. [§682.102(d)]

  In the case of a married couple, where each has FFELP loans that are held by a single lender, only one of the borrowers must contact the lender. [HEA 428C(b); §682.102(d); §682.201(c)(2)(iii)]

- A guarantor will guarantee a Consolidation loan only if the borrower (or borrowers in the case of spouses applying to consolidate their loans) has one or more active loans currently held or guaranteed by that guarantor, except as otherwise agreed on a case-by-case basis by the lender and guarantor. The borrower may choose not to include the active loan that was issued under that guarantee in the Consolidation loan.

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 (or borrowers', in the case of spouses applying to consolidate their loans) active loans, the guarantor reserves the right to notify the lender that the guarantee on the Consolidation loan is not valid. The lender may attempt to transfer the loan to an appropriate guarantor or the guarantee may be revoked. If the guarantee is revoked, all interest and special allowance collected on that loan from the date of disbursement must be refunded.

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 a Federal Consolidation loan is not eligible for a subsequent Federal 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)]

In either case, if the borrower meets all eligibility requirements, any or all outstanding eligible loans may be consolidated, including existing Consolidation loans and loans made before or after any existing Consolidation loan. In the case of a married couple, a spouse's loans that are to be included in a Consolidation loan are considered eligible loans for the other spouse.

### Loans That May Be Consolidated

A borrower may consolidate one or more of the following types of federal education loans:

- FFELP loans (Stafford, PLUS, SLS, and Consolidation loans[1])

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

- FISL loans

- Perkins Loans

- Health Professions Student Loans (HPSL), including Loans for Disadvantaged Students (LDS)[2]

- Nursing Student Loans (NSL)[2]

- Health Education Assistance Loans (HEAL)[2]

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1. A borrower or married couple may not reconsolidate a single Consolidation loan.
2. See subsection 14.1.A. for information on nondiscrimination and permissible practices.

### Consolidating Defaulted Title IV Loans

A defaulted Title IV loan is eligible for consolidation if the borrower, at the time of application for the Consolidation loan, meets one of the following conditions:

- The borrower has made satisfactory repayment arrangements with the holder of the defaulted loan.
- The borrower has agreed to repay the Consolidation loan under an income-sensitive repayment schedule.

Some guarantors restrict the methods by which a borrower may become eligible to consolidate a defaulted loan. These requirements are noted in appendix C.

It is the obligation of the consolidating lender to determine whether the borrower has chosen an income-sensitive repayment schedule or has made the required monthly payments to the holder of the defaulted loan.

Satisfactory repayment arrangements for Consolidation loan eligibility purposes are defined as three consecutive, on-time (received within 15 days of the due date), voluntary, full monthly payments. These payments must be reasonable and affordable with respect to the borrower's financial situation and must be received by the holder of the defaulted loan during the three months immediately preceding the receipt of a consolidating lender's verification certificate. Prepayment of future installments will not be counted in determining whether the borrower has made three consecutive payments. Income-sensitive repayment schedule eligibility and terms are outlined in subsection 9.8.C.
[§682.200(b); §682.201(c)(1)(i)(A)(3); §682.209(a)(7)]

### Adding Loans after Consolidation

A borrower may add to any outstanding Consolidation loan any eligible loans received before or after the date of the consolidation, provided the borrower, or either spouse in a couple that jointly consolidated loans, makes a request within 180 days of the date the Consolidation loan is made. Borrowers, or both spouses in a joint consolidation, who wish to add eligible loans to a Consolidation loan must complete and return the *Request to Add Loans* form to the lender so that it is received by the lender within 180 days of the date the original Consolidation loan was made. A spouse's loans cannot be added if the spouse was not a party to the original Consolidation loan. After the 180-day period, the borrower may not include additional loans in the outstanding Consolidation loan.

A borrower who wants to add loans to a Consolidation loan that has been disbursed should provide information regarding those loans to the lender. If the borrower requests that a loan be added within the 180-day add-on period, the consolidating lender is permitted an additional 30 days beyond the 180-day period to complete the disbursement of the additional loan funds.
[§682.201(d)(1)]

Lenders and borrowers should note that the interest rate and repayment terms on a Consolidation loan may be affected by adding loans. The lender must disclose new repayment terms to the borrower, if the terms of the borrower's Consolidation loan change due to the addition of loans within the 180-day add-on period. However, a Consolidation loan made from an application received by the lender between November 13, 1997, and September 30, 1998, inclusive, retains a variable interest rate, not to exceed 8.25%, regardless of any new loans added after the original Consolidation loan is made. For portions of the Consolidation loan attributable to HEAL loans, the variable interest rate is based on the average of the 91-day Treasury bill rate plus 3%, with no cap.
[HEA 428C(c)(1)(D)]

Some guarantors require lenders to report the adding of loans to Consolidation loans within specific time frames. These requirements are noted in appendix C.

## 14.3
## The Application Process

Neither the guarantor nor the lender may charge the borrower a guarantee fee or origination fee with the borrower's application for a Federal Consolidation loan. Federal regulations permit guarantors to charge lenders an administrative fee to cover the costs of increased or extended liability for Consolidation loans. This fee may not exceed $50 and may not be passed on to the borrower. [§682.505(a); §682.401(b)(12)]

▲ Lenders may contact individual guarantors for further information on applicable fees. See section 1.6 for contact information.

### 14.3.A
### Providing Consolidation Loan Information

The lender is encouraged to provide information to prospective Consolidation loan borrowers to help them make informed decisions about consolidation. Lenders may wish to provide the following types of documentation:

*Checklist*
Including a checklist can be helpful in guiding the borrower through the Consolidation loan application process.

*Fact Sheet*
A Consolidation loan fact sheet can clearly explain:

- Benefits of consolidation to the borrower.
- Borrower eligibility requirements.
- Types of loans that may be consolidated.
- Interest rate calculation.
- Repayment options available.
- Effects of repayment schedule on the repayment period.
- Deferment options.
- The borrower's cost for consolidation.
- The consolidation process.

*Worksheet*
A Federal Consolidation loan worksheet can help the borrower:

- List all outstanding education loans.
- Select which loans are to be consolidated.
- Determine the maximum repayment period.
- Compute the interest rate.
- Calculate estimated monthly payments under standard, graduated, or income-sensitive repayment schedules.
- Compare the estimated payment with the total of payments for the same loans without consolidation.
- Calculate the total cost of repayment (including interest) over various repayment periods.

*Instructions*
The lender should include instructions for filling out the application and promissory note.

### 14.3.B
### Completing the Application

The borrower must complete a Consolidation loan application and promissory note to apply for the consolidation of his or her eligible loans. The application must be submitted to the consolidating lender. Married couples seeking to consolidate loans jointly must complete all applicable sections of the forms, including those that apply to spousal consolidation.

## 14.3.C
## Completing the Verification Certificate

A verification certificate must be completed by the holder of each loan to be consolidated. The consolidating lender may use information from the certificate to build an accurate record of the borrower's current education loan obligations and to determine the payoff amount of the loan(s). If the current holder is also the holder that is performing the consolidation, that party is not required to complete a verification certificate. However, the holder must retain adequate evidence to support the loan balance as of the date of the consolidation. This information may be requested in a borrower inquiry or a program review.

A verification certificate may be included with application materials or may be generated by the consolidating lender. The borrower's authorization for the release of information is included on the application form.

The current holder of each loan to be consolidated must complete the certificate according to the instructions on the form. If the current holder has information indicating that a borrower may not be eligible for the Consolidation loan, this information should be included on the verification certificate.
[§682.209(j)]

In completing a verification certificate, the holder should:

- Verify or complete the applicable information for each loan.
- Calculate a loan payoff amount according to the *anticipated loan payoff date*.

The payoff amount should include outstanding accrued interest, late charges, and the outstanding principal balance for each loan. The payoff amount for defaulted loans may also include collection costs. However, collection costs exceeding 18.5% of the outstanding balance at the time of certification will not be guaranteed.

Prior to the disbursement of a Consolidation loan, the consolidating lender must obtain certification of the information listed below from the holder of each loan to be consolidated. Use of the common verification certificate form approved by the Department meets the requirements for certification of the following information:

- The information on the form is accurate and complete.
- Each loan listed is a legal, valid, and binding obligation of the borrower.
- Each loan was made and serviced in compliance with all applicable laws and regulations.
- For Federal Stafford, Federal PLUS, Federal SLS, Federal Consolidation, and Federal Insured Student Loans, the insurance on each such loan is in full force and effect.
- The loan amounts confirmed include only unpaid principal, unpaid accrued interest for which the borrower is responsible, late charges, and eligible collection costs.

When the verification certificate is complete, an authorized official of the holder must sign the certificate and return it to the consolidating lender. If the holder is unable to certify to the matters described above, the holder must provide the consolidating lender and the guarantor of the loan at issue with a written explanation of the reasons for its inability to provide the certification. The holder has 10 business days from the date it receives the verification certificate to respond to the consolidating lender.
[§682.206(f); §682.209(j)]

## 14.3.D
## Calculating the Interest Rate

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

## Consolidation Loan Interest Rates — Figure 14-1

| Loan Characteristic | Interest Rate | | | |
|---|---|---|---|---|
| Applications received by the lender on or after 10/1/98 | Portion attributable to FFELP, FDLP, FISL, Perkins, HPSL, or NSL loans | | Portion attributable to HEAL loans (if applicable) | |
| | Fixed | Weighted average of the interest rates on the non-HEAL loans being consolidated, rounded up to the nearest one-eighth of one percent, not to exceed 8.25% [HEA 427A(k)(4)] | Variable[1] | Average of the bond equivalent rates of the 91-day Treasury bills auctioned for the quarter ending June 30, plus 3.0%. [HEA 428C(d)(2)(A) and (B)] |
| Applications received by the lender between 11/13/97 and 9/30/98, inclusive | Portion attributable to FFELP, FDLP, FISL, Perkins, HPSL, or NSL loans | | Portion attributable to HEAL loans (if applicable) | |
| | Variable[1,2] | Bond equivalent rate of the 91-day Treasury bills auctioned at the final auction before the preceding June 1, plus 3.1%, not to exceed 8.25% [HEA 427A(f)(1)] | Variable[1] | Average of the bond equivalent rates of the 91-day Treasury bills auctioned for the quarter ending June 30, plus 3.0%. [HEA 428C(d)(2)(A) and (B)] |
| Loans made on or after 7/1/94, from applications received by the lender before 11/13/97 | Fixed | Weighted average of the interest rates on the loans being consolidated, rounded up to the nearest whole percent. [HEA 428C(c)(1)(C)] | | |
| Loans made before 7/1/94 | Fixed | Greater of 9% or weighted average of the interest rates on the loans being consolidated, rounded to the nearest whole percent. [HEA 428C(c)(1)(B); §682.202(a)(4)] | | |

[1] All variable interest rates are adjusted annually on July 1.

[2] Lenders that initially calculated the interest rate using the weighted average were required, no later than April 1, 1998, to recalculate the loans at the variable rate retroactively to the date the loans were disbursed and apply any credits to the borrower's account.

### Calculating the Weighted-Average Interest Rate

With the exception of any outstanding balance representing a HEAL loan, the outstanding balance of all eligible loans to be consolidated are included in the weighted-average interest rate calculation. A weighted-average interest rate is calculated as follows:

*The following exemplifies a weighted-average interest rate calculation for a loan application received by the lender on or after October 1, 1998:*

**Step 1**
Multiply the outstanding balance of each loan to be consolidated by that loan's current interest rate. A variable rate loan should be included in the calculation at the rate at which it is currently accruing.

Example: Outstanding loan balances are $3,500, $3,200, and $5,500 respectively—for a total of $12,200. The current interest rates for the loans are 7%, 5%, and 9%, respectively.

$3,500 X .07 = $245
$3,200 X .05 = $160
$5,500 X .09 = $495

**Step 2**
Add the results of all calculations made under *Step 1*. Then divide this sum by the outstanding balance of all loans being consolidated.

Example: $245 + $160 + $495 = $900
$900 ÷ $12,200 = .07377 or 7.377%

**Step 3**
Round the result of *Step 2* up to the nearest eighth of one percent, not to exceed 8.25%.

Example: 7.377% is rounded up to 7.5%

A lender may charge the borrower a rate that is less than the statutory maximum. If a lower rate is charged, the lender must ensure that reports issued to the Department (such as the ED Form 799) are adjusted. See appendix A for more information on ED Form 799 reporting.

A lender must notify the borrower, at the time a lower interest rate is offered, that the lower-rate interest ends on the date a default or ineligible borrower claim is purchased by the guarantor. The lender may provide this information in any format. Documentation of the notice must be maintained in the borrower's file. A lender is encouraged to include this documentation (showing that the borrower was informed that the lower interest rate expires upon claim purchase) with default and ineligible borrower claim files. The lender will be required to provide this documentation if a borrower challenges the guarantor or the Department for charging the applicable statutory maximum interest rate during postclaim interest accrual. If the issue goes to court and the decision is in favor of the borrower such that the loan is unenforceable at the statutory maximum interest rate, the lender will be required to repurchase the loan and the guarantee will be withdrawn permanently. The lender may be required to reimburse the guarantor for any court costs or court-imposed fines or penalties.

## 14.4 Disbursement

The lender may disburse a Consolidation loan upon receiving the borrower's signed application and promissory note and completed verification certificates from the holder(s) of all loans to be consolidated. In disbursing the loan, the consolidating lender must pay to each holder of a loan that is being consolidated the outstanding principal balance plus any accrued unpaid interest, late charges (as certified on the verification certificate), and collection costs, as applicable.

A Consolidation loan is considered to be disbursed on the date of the first individual or master check, payment advice, or noncash transfer that transfers funds from the consolidating lender to the holder of the loans to be consolidated. For funds disbursed by EFT, the Consolidation loan is considered disbursed on the first date that funds are transferred. If the loan funds for multiple underlying loans are disbursed on multiple days, including funds issued through the end of the 180-day add-on period, those disbursements are considered "subsequent disbursements." The loan's first disbursement date is used to determine its terms and conditions.

Upon receiving sufficient proceeds from the consolidating lender, the holder of each loan being consolidated must promptly apply the payment to discharge the borrower's obligation in full. If proceeds disbursed by the consolidating lender are not sufficient to pay a loan in full, the holder should contact the consolidating lender to resolve the discrepancy.

The holder of a loan that is paid in full by a Consolidation loan must promptly make the following notifications:

- Notify the consolidating lender that the consolidating funds were received and provide certification that the underlying loan has been fully discharged.
- Report the payment in full to at least one appropriate national credit bureau.
- Report to the loan's guarantor that the loan has been paid in full by consolidation. [§682.209(h)(5)]

## 14.5 Repayment

A Federal Consolidation loan enters repayment on the date the loan is disbursed. The lender must establish a first payment due date that is no more than 60 days after the date on which the last disbursement discharging underlying loans is made.
[§682.102(e)(5); §682.209(h)(1); §682.209(a)(1)]

When establishing the repayment terms for a Consolidation loan, the lender must consider the borrower's financial ability to repay the loan and ensure that the terms meet the requirements described in this section.

Lenders must offer Consolidation loan borrowers the choice of a standard, graduated, income-sensitive or, if applicable, an extended repayment schedule. See section 9.8 and subsection 9.6.D for more information on these repayment schedules and minimum payment requirements.

### 14.5.A Disclosing Repayment Terms

The lender must disclose repayment terms for a Federal Consolidation loan to the borrower at the time the loan is disbursed. The lender must disclose new repayment terms to the borrower, if the terms of the borrower's Consolidation loan change due to the addition of loans within the 180-day add-on period. Lenders should refer to section 9.7 for more information on repayment disclosure requirements.

A lender may capitalize the sum of collection costs assessed by any previous holders if the borrower has agreed in writing to have those costs capitalized in the Consolidation loan. A borrower applying to consolidate any defaulted loans must agree to the capitalization of collection costs to qualify for a Consolidation loan.

### 14.5.B Maximum Repayment Period

The length of the repayment period for a Federal Consolidation loan varies according to the sum of the beginning balance of the Consolidation loan and the amount of the borrower's other education loans. Other education loans are those made to a borrower by an organization under a public or private student loan program exclusively for the purpose of financing the borrower's or a dependent student's postsecondary education. For the purposes of determining the borrower's repayment terms, the sum of other education loans may not exceed the amount of the Consolidation loan and may not include non-Title IV education loans that are in default. The sum of other education loans may include any defaulted Title IV loans for which satisfactory repayment arrangements have been made (see section 14.2).[1]

1. Policy 696 (Batch 105), approved August 21, 2003

**Maximum Repayment Periods for Consolidation Loans** — **Figure 14-2**

| Sum of Consolidation Loan Balance plus Balances of Other Education Loans | Maximum Repayment Period* |
|---|---|
| Less than $7,500 | 10 years |
| $7,500 or more, but less than $10,000 | 12 years |
| $10,000 or more, but less than $20,000 | 15 years |
| $20,000 or more, but less than $40,000** | 20 years |
| $40,000 or more, but less than $60,000 | 25 years |
| $60,000 or more | 30 years |

*Maximum repayment periods exclude authorized periods of deferment and forbearance. [§682.209(h)(2) and (h)(3)]
**A "new borrower" on or after October 7, 1998, with an outstanding balance of principal and interest in FFELP loans totaling more than $30,000, may select an extended repayment schedule that allows for a repayment period not to exceed 25 years. [§682.209(a)(7)(ix)]

*The lender is not required to verify the balance of any other education loans that are used to determine the length of the repayment period for a Federal Consolidation loan.*

The maximum repayment periods for Consolidation loans—based on the sum of the initial Consolidation loan balance and other education loan balances—are outlined in the table on the preceding page.

## 14.5.C Deferments

A Federal Consolidation loan borrower's deferment eligibility is based on the following factors:

- The date the borrower's Consolidation loan is made.
- Whether the borrower included all his or her outstanding FFELP loans in the Consolidation loan.
- The deferment eligibility established with the borrower's underlying loans.
- The extent to which the borrower has already obtained deferments (and depleted deferment eligibility). Generally, deferments are borrower-specific. When determining a borrower's eligibility for deferment, the holder should consider any information available on the borrower's previous deferments.

If two individuals are jointly liable for repayment, both individuals must simultaneously meet the requirements for receiving the same or different deferments.

A Consolidation loan borrower may defer payment of principal during certain periods. Deferment options available to the borrower depend on two factors: when the borrower's Consolidation loan was made and whether the borrower had any outstanding principal or interest balance on a FFELP loan on July 1, 1993. Details on all of the following deferment types, including restrictions and documentation requirements, are outlined in subsection 10.1.A and in sections 10.2 to 10.17.

### "New Borrowers" on or after July 1, 1993

If a Consolidation loan is made on or after July 1, 1993, and the borrower has no outstanding FFELP loans at the time of consolidation that were made on or before July 1, 1993, the borrower may be entitled to the following types of deferments:

- *Education-Related Deferments*

  When the borrower is enrolled at least half time at an eligible school (section 10.5), pursuing a graduate fellowship program (see section 10.4), or engaged in a rehabilitation training program (see section 10.12).

- *Unemployment Deferments*

  When the borrower is conscientiously seeking, but unable to secure, employment (see section 10.16).

- *Economic Hardship Deferments*

  When the borrower is experiencing economic hardship (see section 10.3).

### Borrowers with Loans Made before July 1, 1993

If a Consolidation loan is made before July 1, 1993, the borrower may be entitled to the following deferment types. These options also apply if a Consolidation loan is disbursed on or after July 1, 1993, to a borrower with any outstanding FFELP loans at the time of consolidation that were first disbursed before July 1, 1993:

- *In-School Deferments*

  When the borrower is enrolled at an eligible school as a full-time or half-time student (see section 10.5).

- *Education-Related Deferments*

  When the borrower is engaged in an eligible graduate fellowship program (see section 10.4) or rehabilitation training program (see section 10.12).

- *Temporary Total Disability Deferments*

  When the borrower is temporarily totally disabled or unable to secure employment because he or she is caring for a spouse or other dependent who is temporarily totally disabled (see section 10.15).

- *Unemployment Deferments*

  When the borrower is conscientiously seeking, but unable to secure, employment (see section 10.16). [§682.210]

## 14.5.D Forbearance

Federal Consolidation loan borrowers remain eligible for all types of forbearance. Forbearance provisions for Consolidation loan borrowers are the same as those for Stafford, PLUS, and SLS loan borrowers (see section 10.18).

## 14.5.E Delinquency, Default, and Claim Filing

The due diligence, default, and claim filing requirements for Federal Consolidation loans are identical to those applicable for other loans guaranteed by the guarantor (see chapters 11 and 12).

*For discharge due to total and permanent disability, the borrower must be considered totally and permanently disabled according to FFELP discharge criteria on all underlying loans included in the Consolidation loan—including any non-FFELP loans. The loan origination dates of the underlying loans will be used in determining a borrower's eligibility.*

## 14.5.F Paid-in-Full Loans

When a Federal Consolidation loan is paid in full by the borrower, the lender must either return the original or a true and exact copy of the promissory note to the borrower, or notify the borrower that the loan is paid in full.

Lenders must retain a copy of the promissory note and other key loan documents—as well as a copy of the loan servicing history—for a period of not less than 3 years after the date on which the loan is paid in full by the borrower and not less than 5 years after the date the lender receives payment in full from any other source. In addition, the lender must report to the guarantor the paid-in-full status of the loan. See section 3.5 for information on lender reporting.

## 14.6 Interest Benefits and Special Allowance

### Interest Benefits

A Federal Consolidation loan is eligible for federal interest subsidy during periods of deferment if the loan was made from an application received by the lender between January 1, 1993, and August 9, 1993, inclusive, excluding any portions derived from HEAL loans. [§682.301(a)(3)(i)]

A Federal Consolidation loan made from an application received by the lender between August 10, 1993, and November 12, 1997, inclusive, is eligible for interest subsidy during periods of deferment only if all underlying loans are subsidized Stafford loans. [§682.301(a)(3)(ii)]

A Federal Consolidation loan made from an application received by the lender on or after November 13, 1997, is eligible for interest subsidy during authorized periods of deferment on any portion of the Consolidation loan that paid an underlying subsidized FFELP loan or an underlying subsidized Direct loan. The borrower is responsible for interest payment during periods of authorized deferment on all other portions of a Consolidation loan. [§682.301(a)(3)(iii)]

See appendix A for more information on interest benefits.

### Special Allowance

The formula for calculating the applicable special allowance rate on a Federal Consolidation loan is determined based on when the loan was made or, as applicable, when the application was received by the consolidating lender. For example, a Consolidation loan made on or after October 1, 1992, from an application received by the consolidating lender before January 1, 2000, would be eligible for special allowance based on the applicable T-bill rate plus 3.10%. A Consolidation loan made from an application received by the consolidating lender on or after January 1, 2000, is eligible for special allowance based on the applicable 3-month commercial paper rate plus 2.64%. See subsection A.2.A for more information on special allowance formula components and the factors that affect the calculation of special allowance for Consolidation loans.

The portion of a Consolidation loan attributable to a HEAL loan is not eligible for special allowance.
[HEA 428C(d)(3)(A)]

## 14.7
## Interest Payment Rebate Fee

Each month, a holder must remit to the Department an interest payment rebate fee for all of its Federal Consolidation loans made on or after October 1, 1993. For loans made on or after October 1, 1993, from applications received prior to October 1, 1998, and after January 31, 1999, this fee is equal to 1.05% per annum of the unpaid principal and accrued interest of the loans. For loans made from applications received during the period beginning October 1, 1998, through January 31, 1999, inclusive, this fee is equal to 0.62% per annum of the principal and accrued interest of the loans.
[428C(f)]

### Calculating the Fee

To calculate the monthly interest payment rebate fee for loans made on or after October 1, 1993, from applications received prior to October 1, 1998, and after January 31, 1999, the holder should multiply the sum of unpaid principal and interest balances of the applicable loans—as of the end of the month—by 0.0875% (0.000875).

To calculate the monthly interest payment rebate fee for loans made from applications received during the period beginning October 1, 1998, through January 31, 1999, inclusive, the holder should multiply the sum of unpaid principal and interest balances of the applicable loans—as of the end of the month—by 0.0517% (0.000517).

### Submitting the Fee

A holder may remit its monthly fee by a check payable to the Department, with the notation “Consolidation loan fee.” Checks should be mailed to:

U.S. Department of Education
P.O. Box 371584
Pittsburgh, PA 15251-7584

Alternatively, a holder may send its fee to the Department electronically, using the Automated Clearinghouse (ACH). Payments by ACH should be transmitted to:

Mellon Bank
RTN# 0430-0026-1
ACCT# 9116165

The holder should include with its payment a cover letter identifying the holder’s name, the holder’s lender identification number (LID), the month to which the fees apply, and the amount of unpaid principal and interest on which the fee was calculated.

Payments must be received within 30 days of the end of the month for which the fee is calculated. For example, fees for the month of February must be submitted by March 30.
[HEA 428C(f); DCL 93-G-248]

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# 15 Cohort Default Rates and Appeals


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Chapter 15 provides an overview of the annual cohort default rates calculated by the Department for schools, lenders, and holders participating in the FFELP. Section 15.1 includes an overview of the cohort default rate process and definitions applicable to cohort default rates. Sections 15.2 through 15.5 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 15.6, 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.

## 15.1 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 15.3)

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.
- *Days*: For all cohort default rate rules, days mean calendar days.
- *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. [§668.183(c)]
- *Draft Cohort Default Rate*: The rate the Department issues for the school's review before the issuance of the official cohort default rate. The Department generally notifies schools of draft cohort default rates in February or March of each year.
- *Fiscal Year*: A federal fiscal year begins on October 1 and ends on September 30 of the following year. The fiscal year is identified by the calendar year in which it ends.
- *Loan Record Detail Report*: This report is issued by the Department and contains the detailed data used to calculate the school's draft or official cohort default rate.
- *Official Cohort Default Rate*: The official rate is calculated and published by the Department after the school has an opportunity to review and challenge its draft cohort default rate. The Department generally publishes the official rate prior to September 30 each year.
- *Participation Rate Index (PRI)*: The PRI is the percentage of a school's students who obtain FFELP or FDLP loans multiplied by the school's cohort default rate. (See section 15.3) The calculation is accomplished as follows:

*Step 1*—Select a 12-month period that ends no more than 6 months prior to the beginning of the fiscal year for which the cohort default rate is calculated.

*Step 2*—Determine the number of regular students enrolled on at least a half-time basis during any part of the selected 12-month period.

*Step 3*—Of those students identified in *Step 2*, determine the number who received FFELP or FDLP loan funds to attend the school during a loan period that overlaps any part of the 12-month period selected in *Step 1*.

*Step 4*—Divide the result of *Step 3* by the result of *Step 2* to determine the percentage of students who received loans.

*Step 5*—Multiply the result of *Step 4* by the school's cohort default rate to obtain the PRI. [§668.195(b)(1)]

- *Repayment start*: Loans generally are considered to have entered repayment on the dates described in section 9.4. However, there are some exceptions within the cohort default rate process, as follows:
  - If a borrower obtained both an SLS loan and a Stafford loan for the same period of continuous enrollment, the SLS loan enters repayment at the same time the borrower enters repayment on his or her Stafford loan.
  - If the borrower does not have Stafford loans for the same period of continuous enrollment, the SLS loan enters repayment on the day after the student ceases to be enrolled at any school at least half time.
  - A loan is considered to enter repayment if the loan is paid in full by the borrower before the loan would otherwise have entered repayment. In this case, the date on which the loan is paid in full becomes the new repayment begin date. [§668.182(f)]

## 15.2 Calculation of Cohort Default Rates

A cohort default rate is defined as the percentage of a school's student borrowers entering repayment on FFELP or FDLP loans during a specific fiscal year who default on those loans during the same or following fiscal year (see section 15.1). A FFELP cohort default rate is calculated for each school participating in the FFELP or FDLP at the beginning of the fiscal year, whether or not the school actually had student borrowers entering repayment on Stafford or SLS loans during that fiscal year.

An official cohort default rate is calculated for a school according to the formulas that follow. Formula A is used for schools that had 30 or more student borrowers who entered repayment during the fiscal year for which the rate is being calculated. Formula B is used for schools that had fewer than 30 student borrowers who entered repayment during the fiscal year for which the rate is being calculated. A draft cohort default rate is calculated for a school based on one year of data (using Formula A), even if the official cohort default rate for the school will be calculated based on several years of data (using Formula B).

A dual-program cohort default rate is calculated when a school has student borrowers who entered repayment on both FFELP and FDLP loans in the same fiscal year. Although the same basic formulas are used to calculate FFELP, FDLP, and dual-program cohort default rates, slightly different definitions of default are used to determine which FFELP and FDLP student borrowers are included in the numerator of the formulas. For all schools, a FFELP loan is considered to be in default on the date the guarantor pays a default claim, and a FDLP loan is considered to be in default after 360 days of delinquency. For proprietary non-degree-granting schools only, the definition of default also includes student borrowers with FDLP loans that are in repayment for at least 360 days under the income-contingent repayment plan with scheduled payments that are less than $15 per month and less than the interest accruing on the loan. These conditions must have occurred before the end of the fiscal year following the year in which the loan entered repayment. [§668.183(c)]

In some cases, the Department calculates an "unofficial cohort default rate" for a school. An "unofficial rate" is applicable if a school had fewer than thirty borrowers who entered repayment during the fiscal year for which the rate is being calculated, and no cohort default rate was calculated by the Department for the school for either or both of the two previous fiscal years. An "unofficial cohort default rate" cannot be used to determine sanctions or benefits for a school because it does not meet the definition of an official cohort default rate. [*Cohort Default Rate Guide*]

## Cohort Default Rate Formulas — Figure 15-1

**FORMULA A: Schools with Thirty or More Student Borrowers Who Entered Repayment**

$$\frac{\text{Number of student borrowers who entered repayment during the specified fiscal year and defaulted within that fiscal year or the subsequent fiscal year}}{\text{Number of student borrowers who entered repayment during the specified fiscal year}} \times 100$$

**Example**
Student borrowers who entered repayment from October 1, 1998, through September 30, 1999, (inclusive), will be included in the denominator of the cohort default rate calculation for federal fiscal year l999. If any of those student borrowers' loans defaulted by the end of the next fiscal year (September 30, 2000), those student borrowers will be included in the numerator. Student borrowers who entered repayment during fiscal year 1999, but who defaulted after September 30, 2000, will only be included in the denominator of the formula for the fiscal year 1999 default rate calculation.

**FORMULA B: Schools with Fewer Than Thirty Student Borrowers Who Entered Repayment**

$$\frac{\text{Number of student borrowers who entered repayment during the specified fiscal year and the previous two fiscal years and who defaulted by the end of the fiscal year immediately following the fiscal year in which those student borrowers entered repayment}}{\text{Number of student borrowers who entered repayment during the specified fiscal year and the previous two fiscal years}} \times 100$$

[§668.183(d)]

**Example**
For calculating the federal fiscal year 2001 cohort default rate, the following periods are applicable:

| *Borrower Entered Repayment* | *Borrower Defaulted on or Before* |
|---|---|
| 10/01/98 – 9/30/99 | 9/30/00 |
| 10/01/99 – 9/30/00 | 9/30/01 |
| 10/01/00 – 9/30/01 | 9/30/02 |

Student borrowers who entered repayment during these periods are included in the denominator of the formula. Student borrowers who subsequently defaulted in the periods specified above are included in the numerator.

### Determining the Denominator

The denominator is the number of student borrowers who entered repayment during a fiscal year. This is determined by counting the number of different Social Security numbers present in all of the loan records for student borrowers who entered repayment on Federal Stafford or Federal SLS loans during that fiscal year. If a school had fewer than thirty borrowers who entered repayment in the fiscal year for which the rate is being calculated, the Department also identifies the borrowers in the cohorts for the two most recent prior fiscal years for inclusion in the current-year cohort calculation.
[§668.183(a)(1)]

There are several points to note about the calculation regarding student borrowers with multiple loans:

- A student borrower with two or more loans that entered repayment during the same fiscal year will be counted only once in a school's denominator.

- A student borrower with multiple loans that entered repayment in more than one fiscal year will be included in the cohort default rate calculation for each fiscal year in which the loans entered repayment.

- A student borrower with two or more loans that entered repayment during a single fiscal year will be counted in more than one cohort default rate calculation only if he or she borrowed those loans to attend more than one school, and those loans entered repayment during the same fiscal year. Such a borrower's loans (and his or her subsequent repayment or default on those loans) are attributed to the school at which the borrower received the loan that entered repayment.
[*Cohort Default Rate Guide*]

For a student borrower whose loan was fully discharged due to death, disability, bankruptcy, closed school, false certification, unpaid refund, or teacher loan forgiveness provisions *prior* to the loan entering repayment, the borrower will be included in the denominator of the cohort default rate calculation based on the date on which the guarantor paid the applicable claim or discharged the loan. For a student borrower whose loan was fully discharged due to death, disability, bankruptcy, closed school, false certification, unpaid refund, or teacher loan forgiveness provisions *after* the loan entered repayment, the borrower will be included in the denominator of the cohort default rate calculation based on the fiscal year in which the loan entered repayment.

If a student borrower paid a loan in full before the loan would otherwise have entered repayment, the borrower will be included in the denominator of the cohort default rate calculation based on the fiscal year in which the borrower paid the loan in full. If a student borrower requested and began repayment of a loan before the date on which the loan was scheduled to enter repayment, the borrower will be included in the denominator of the cohort default rate calculation based on the fiscal year in which the early repayment began.

### Determining the Numerator

The numerator equals the number of student borrowers in the denominator who defaulted on any Federal Stafford, Federal SLS, or Federal Consolidation loan during the same fiscal year in which the loan or underlying loan entered repayment or during the following fiscal year. If a school had fewer than thirty borrowers who entered repayment during the fiscal year for which the cohort rate is being calculated, the Department identifies the school's student borrowers who entered repayment during the specified fiscal year and the two most recent prior fiscal years and who defaulted by the end of the fiscal year immediately following the fiscal year in which those borrowers entered repayment for inclusion in the numerator of the calculation for the specified year.

There are several points to note about the calculation regarding student borrowers with multiple loans:

- A student borrower who entered repayment during the same fiscal year on two or more loans that were borrowed to attend the same school, and then defaulted on those loans within the applicable time frame specified above, will be counted only once in the numerator.

- A student borrower who defaulted within the applicable time frame on two or more loans that were borrowed to attend the same school and that entered repayment in different fiscal years will be included in the numerators of the school's cohort default rate calculations for each of the fiscal years in which the loans entered repayment.

- A student borrower who defaulted within the applicable time frame on two or more loans that were borrowed to attend more than one school and that entered repayment during a single fiscal year will be included in the numerators of that year's cohort default rate calculations for each school at which the borrower obtained those loans and defaulted.

A loan made under the Lender of Last Resort (LLR) provisions that defaulted within the applicable time frame is included in the numerator of a school's cohort default rate calculation. In addition, any FFELP loan that has defaulted and been rehabilitated by the borrower by the end of the fiscal year following the year in which the loan entered repayment—or any FDLP loan that would be considered in default but on which a borrower has made 12 consecutive, monthly, voluntary, on-time payments—is not considered in default (section 12.7).
[*Cohort Default Rate Guide*]

For a student borrower whose loan was fully discharged due to death, disability, bankruptcy, closed school, false certification, unpaid refund, or teacher loan forgiveness provisions after default, the borrower will be included in the numerator of the cohort default rate calculation that contains the same loan in the denominator, if the default occurred within the applicable time frame. For a student borrower whose loan was fully discharged due to death, disability, bankruptcy, closed school, false certification, unpaid refund, or teacher loan forgiveness provisions without a previous default, the borrower will *not* be included in the numerator of the cohort default rate calculation that contains the same loan in the denominator if the guarantor was notified of the condition in a timely manner. For a student borrower who paid a defaulted loan in full, the borrower will be included in the numerator of the cohort default rate calculation that contains the same loan in the denominator (provided the loan was not rehabilitated by the borrower by the end of the following fiscal year), if the default occurred within the applicable time frame.

*A loan will be considered to be in default if a payment is made by the school or its owner, agent, contractor, employee, or any other entity or individual affiliated with the school in order to avoid default.*
[§668.183(c)(1)(iii)]

### Data Source

Cohort default rates are calculated based on data from the National Student Loan Data System (NSLDS). This data is transmitted to the NSLDS by guarantors, who received the data from lenders and servicers.

### Types of Loans Included in Cohort Default Rates

Cohort default rates for fiscal years 1993 and beyond include Stafford or SLS loans including underlying loans that are included in a Consolidation loan.

### Schools That Change Status

Detailed information regarding the calculation of cohort default rates for schools that change status—due to acquisitions or mergers, acquisitions of branches or locations, or branches or locations becoming separate schools, affecting federal school identification numbers—can be found in federal regulation, as well as the Department's *Cohort Default Rate Guide*.
[§668.184]

### Change of Ownership Resulting in a Change of Control

If a school undergoes a change of ownership, and the school's new owner establishes eligibility for the school, the consequences of the school's previous cohort default rates continue to apply to the school.

## 15.3
## Draft Cohort Default Rates and Challenges

Generally, the Department notifies each school of its draft cohort default rate annually in February or March. The Department's notification to the school includes the loan record detail report that supports the draft cohort default rate calculation. The draft rate is not considered public information and is provided only to the school. A school may challenge its draft cohort default rate based on criteria specified in federal regulations and must use a format that is acceptable to the Department. The format for a cohort default rate challenge is detailed in the Department's *Cohort Default Rate Guide*. If the school's challenge does not comply with the requirements detailed in the Guide, the challenge may be denied.
[§668.185(a)(3) and (4)]

The following is a brief explanation of the basic steps of the draft cohort default rate process. A school that intends to challenge its cohort default rate should refer to the detailed instructions for these activities in federal regulations and in the Department's *Cohort Default Rate Guide.*

### Draft Cohort Default Rates

The Department provides draft cohort default rates to schools to afford them an opportunity to review the cohort data and to ensure the accuracy of the information on which the official rates will be based. The draft rate is always based only on the number of student borrowers entering repayment in the fiscal year for which the rate is being calculated, regardless of the number of student borrowers entering repayment in that year. Draft rates will always be calculated using Formula A found in section 15.2.
[§668.185(a)(2)]

### Challenging Draft Cohort Default Rates

A school can challenge its draft cohort default rate based on two general criteria: incorrect data and the school's participation rate index (PRI). Any challenge must be submitted no later than 45 days after the school receives its draft cohort default rate notification. A detailed explanation of the structure and content of a valid challenge is included in the Department's *Cohort Default Rate Guide*. Schools should carefully note the time frames and criteria prescribed.

*Incorrect Data Challenge*

For a challenge based on incorrect data, the school must provide the challenge to the guarantor (unless the disputed loans have been assigned to the Department) and must include specific information as defined in federal regulation. If the guarantor concurs that the draft rate is based on inaccurate information and the school's challenge is successful, the Department will use the corrected data to calculate the official cohort default rate. If the school does not challenge its draft cohort default rate under the incorrect data challenge, it will lose its right to later submit an appeal of its official rate due to uncorrected data.
[§668.185(b)]

*Participation Rate Index (PRI) Challenge*

A school can use the PRI challenge to put the overall federal fiscal impact of its cohort default rate into perspective based on the low percentage of its students receiving FFELP or FDLP loans. (See section 15.1 for more information on the calculation of the PRI.) A school may submit a PRI challenge if its draft cohort default rate meets one of the following criteria:

- Exceeds 40% and the school's PRI for that cohort's fiscal year is less than or equal to 0.06015.
- Equals or exceeds 25% for the three most recent years for which rates have been calculated and the school's PRI for *any* of those fiscal years is less than or equal to 0.0375.

A school must send its PRI challenge directly to the Department within 45 days after the date on which the school receives its draft cohort default rate notification. If the draft cohort default rate was based on fewer than thirty borrowers entering repayment, the school may use either its draft cohort default rate or the cohort default rate calculated by using Formula B (see section 15.2) in the PRI calculation.
[§668.185(c)]

The Department will notify the school of its determination regarding the PRI challenge prior to the publication of official cohort default rates. If the challenge is successful, the school will not lose eligibility to participate in the FFELP, FDLP, and Pell Grant Program when its official cohort default rate is published, even if that rate exceeds the applicable regulatory threshold for participation in those programs. However, the successful challenge will not exempt the school from any other loss of eligibility.

If the Department determines that the school qualifies for continued FFELP, FDLP, or Pell Grant Program eligibility based on its PRI challenge, it will notify the school of that determination prior to the publication of official cohort default rates. A successful challenge that is based on the draft cohort default rate does not preclude the school from any other loss of eligibility.

A detailed explanation of the structure and content of a valid challenge is included in the Department's *Cohort Default Rate Guide*. Schools should carefully note the time frames and criteria prescribed.

## 15.4 Official Cohort Default Rates, Adjustments, and Appeals

Each year, approximately six months after the release of the draft cohort default rate and prior to September 30th, the Department notifies each school of its official cohort default rate. Following notification, a list of official cohort default rates for all FFELP-participating schools is published. If a school's official cohort default rate is greater than or equal to 10%, the Department will include a copy of the loan record detail report with the notification of the official rate. If a school's official cohort default rate is less than 10%, the school may request a copy of its loan record detail report. If a school plans to request an adjustment to its rate or submit an appeal of its official cohort default rate, the school's request for a copy of the loan record detail report must be mailed to the Department within 15 days after the school receives its official cohort default rate notification.

### What Official Rates Mean for Schools

If the school's official cohort default rate is excessively high (most recent rate exceeds 40%), the school may lose eligibility to participate in the FFELP or FDLP. If the school's official cohort default rates are persistently high (three most recent rates equal or exceed 25%), the school may lose its eligibility to participate in the FFELP, the FDLP, and the Federal Pell Grant Program.

In addition, schools with an official cohort default rate of 25% or more in the three most recent fiscal years for which rates are available may be subject to provisional certification of the school's Title IV program participation. [§668.16(m)]

For HBCUs and tribally controlled and Navajo community colleges, high official cohort default rates may also result in requirements for additional default reduction measures.

Low official cohort default rates may qualify the school for exemption from selected disbursement requirements (see subsection 7.7.B).

### Responding to Rates: Adjustment or Appeal?

A school's eligibility to appeal or request an adjustment to its official cohort default rate depends on the default rate and the type of adjustment or appeal the school is considering, as follows:

- Any school may request a new data adjustment to its official cohort default rate (see subsection 15.4.A).
- Any school that successfully challenged the accuracy of the data in the loan record detail report supporting its draft cohort default rate may submit an uncorrected data adjustment request covering any approved changes that are not reflected in the school's official cohort default rate.
- Any school may submit an appeal based on improper loan servicing or collection.
- A school that is subject to loss of FFELP, FDLP, or Federal Pell Grant Program eligibility or provisional certification because of its cohort default rate may appeal the official cohort default rate based on erroneous data.
- For all types of appeals, a school may appeal its official cohort default rate only if the school would be subject to a loss of FFELP, FDLP, or Federal Pell Grant Program eligibility based on that rate.

## 15.4.A Requests for Adjustment

Two options are available for schools to request an adjustment of their official cohort default rates:

- **Uncorrected Data Adjustment**
  The uncorrected data adjustment is used to identify and correct data that has been included in the published, official cohort default rate and that the school, guarantor, and Department agreed was incorrect in the draft cohort default rate calculation. The school may submit this type of adjustment request if it had, during the "draft" phase, submitted a timely challenge regarding data included in its draft cohort default rate and the guarantor agreed that the changes were necessary, but the revised data is not included in the official cohort default rate. The school must submit the uncorrected data adjustment request to the Department within 30 days after receiving the loan record detail report. Additional instructions for this adjustment process are detailed in the *Cohort Default Rate Guide* and federal regulations.
  [§668.190; *Cohort Default Rate Guide*]

- **New Data Adjustment**
  A school may request a new data adjustment if the loan data reported to the National Student Loan Data System (NSLDS) is changed during the period between the calculation of the draft cohort default rate and the official rate, and if the school believes that the new, modified, or excluded data is inaccurate. However, the school may not submit the adjustment request to the Department if the guarantor does not concur that the data is inaccurate. The school must submit the new data adjustment request to the guarantor, with a copy to the Department (unless the disputed loans have been assigned to the Department), within 15 days after receiving the loan record detail report. Additional steps for this adjustment process are detailed in the *Cohort Default Rate Guide* and federal regulations.
  [§668.191; *Cohort Default Rate Guide*]

## 15.4.B Appeals

Appeal criteria, procedures, and time frames are explained in federal regulations and the *Cohort Default Rate Guide*. Depending on circumstances, a school may appeal for one or more of the following reasons:

- Erroneous data
- Improper loan servicing or collection
- Economically disadvantaged population
- Participation rate index
- Average rates
- Thirty or fewer borrowers entering repayment in the three most recent cohort periods
- HBCU or tribally controlled or Navajo community college exemption

Appeals must be initiated and submitted within strict time frames and must include specific information in formats prescribed by federal regulation. Each appeal type is subject to different requirements.
[§668.189; *Cohort Default Rate Guide*]

### Erroneous Data Appeals

Generally, a school that is initially subject to provisional certification or loss of FFELP, FDLP, or Federal Pell Grant Program eligibility due to high official cohort default rates may appeal a cohort default rate based on erroneous data for any of the years used to make that determination. A school subject to continued loss of eligibility may appeal only its most recent official cohort default rate. A school may submit an erroneous data appeal if either of the following criteria is applicable:

- The school submitted a timely challenge to data in its draft cohort default rate and it still considers that data to be inaccurate in the official cohort default rate calculation, regardless of whether the guarantor concurred with the school's assertion that the data was inaccurate.
- The data in the loan record detail report provided with the official cohort default rate notification varies from that provided with the draft rate, and the school believes new, modified, or excluded data is inaccurate, regardless of whether the guarantor concurs.

The school must submit a request for verification of data errors to the guarantor, with a copy to the Department (unless the disputed loans have been assigned to the Department), within 15 days after receiving its official cohort default rate notification. Additional steps for this appeal process are detailed in the *Cohort Default Rate Guide* and federal regulations.
[§668.192; *Cohort Default Rate Guide*]

### Improper Loan Servicing or Collection Appeals

Any school may submit an improper loan servicing or collection appeal. A school subject to an initial loss of eligibility may appeal any of the applicable rates. A school subject to continued loss of eligibility may appeal only its most recent official cohort default rate. This appeal alleges that improper servicing or collection caused defaults on specific loans that were included in the calculation of the official cohort default rate.
[HEA 435(a)(3)(C); §668.193(a)]

A school may submit an improper loan servicing or collection appeal if both of the following criteria are met:

- The borrower never made a payment on the loan.
- The school proves that the lender failed to perform at least one of the following servicing or collection activities, if that activity was required:
  - Sending at least one letter, other than the final demand letter, urging the borrower or endorser to make payments on the loan.
  - Attempting at least one telephone call to the borrower or endorser.
  - Submitting a request for default aversion assistance to the guarantor.
  - Sending a final demand letter to the borrower.
  - Submitting a certification or other evidence that skip tracing was performed.
    [§668.193(b)]

If the school intends to appeal its official cohort default rate based on improper loan servicing and collection and the loan record detail report was not included with the official cohort default rate notice, the school must request the loan record detail report within 15 days after receiving that notice. A school must request loan servicing records from the guarantor, with a copy of that request to the Department (unless the disputed loans have been assigned to the Department) within 15 days after receiving the loan record detail report. (Guarantors may charge for copies of loan servicing records.) Additional steps for this appeal process are detailed in the *Cohort Default Rate Guide* and federal regulations.
[§668.193(c); *Cohort Default Rate Guide*]

### Economically Disadvantaged Population Appeals

If a school is subject to loss of its FFELP, FDLP, or Federal Pell Grant Program eligibility due to high cohort default rates but can successfully demonstrate that it serves an economically disadvantaged student population, the school may submit this type of appeal if an independent auditor certifies that the school's low-income rate is two-thirds or more, and that either of the following conditions exist:

- The school offers an associate, baccalaureate, graduate, or professional degree, and its program completion rate is 70% or more.
- The school does not offer an associate, baccalaureate, graduate, or professional degree, and its job placement rate is 44% or more.

The components and formulas for calculating the school's low-income rate, completion rate, and placement rate are carefully detailed in the *Cohort Default Rate Guide*. An economically disadvantaged population appeal must include, in addition to the school's assertions and documentation, an independent auditor's opinion that the school's assertions meet the requirements for an economically disadvantaged population appeal and are fairly stated in all material respects.

A school appealing on the basis of an economically disadvantaged student population must submit its management's written assertions as described in the *Cohort Default Rate Guide*, within 30 days after receiving the official cohort default rate notice. The auditor's opinion must be submitted to the Department within 60 days after receiving the notice. Detailed instructions for this appeal process can be found in the *Cohort Default Rate Guide* and federal regulations.
[§668.194(f); *Cohort Default Rate Guide*]

### Participation Rate Index (PRI) Appeals

The PRI puts into perspective the impact of the school's cohort default rate on the federal fiscal interest. Thus, a low PRI indicates that the overall impact of a school's students' defaults is not significant in terms of federal dollars. (See section 15.1 for information regarding the calculation of the PRI.) A school that is subject to a loss of FFELP, FDLP, or Federal Pell Grant Program eligibility may use the PRI appeal based on either of the following conditions:

- The school has one cohort default rate over 40% and the PRI for that cohort's fiscal year is less than or equal to 0.06015.
- The school has three consecutive cohort default rates of 25% or more and the PRI for any of the three cohorts' fiscal years is less than or equal to 0.0375.

A school appealing a loss of eligibility based on its PRI must submit that appeal to the Department within 30 days after receiving the notice of loss of eligibility. Detailed instructions for this appeal process can be found in the *Cohort Default Rate Guide* and federal regulations.
[§668.195; *Cohort Default Rate Guide*]

### Average Rates Appeals

A school may submit an average rates appeal if it is subject to a loss of FFELP, FDLP, or Federal Pell Grant Program eligibility due to high cohort default rates and the school meets either of the following criteria:

- The school's official cohort default rate is greater than 40% and that cohort default rate was calculated as an average because there are fewer than thirty borrowers entering repayment in that cohort.
- The school's three most recent cohort default rates are 25% or more, at least two of those rates were calculated as average rates, and those two rates would be less than 25% if calculated for the applicable fiscal year alone.

The Department makes the initial determination that a school qualifies for an average rates appeal. Notice of that determination is included in the official cohort default rate notification. If the Department makes an initial determination that a school does not qualify for an average rates appeal and the school disagrees with that determination, the school must submit its appeal and all supporting documentation to the Department within 30 days after receiving the official cohort default rate notification. Detailed instructions for this appeal process can be found in the *Cohort Default Rate Guide* and federal regulations.
[§668.196; *Cohort Default Rate Guide*]

## Summary: Challenges, Adjustments, and Appeals — Figure 15-2

| Rate Type: | The following may be submitted: | If school is subject to: | | When notified of provisional certification |
|---|---|---|---|---|
| | | *No Sanction* | *Loss of eligibility* | |
| **Draft** Cohort Default Rate: | Incorrect Data Challenges [§668.185(b)] | • | *Sanctions are never based on draft cohort default rates.* | |
| | Participation Rate Index Challenges [§668.185(c)] | • | | |
| **Official** Cohort Default Rate: | Uncorrected Data Adjustments [§668.190] | • | • | |
| | New Data Adjustments [§668.191] | • | • | |
| | Erroneous Data Appeals [§668.192] | | • | • |
| | Improper Loan Servicing or Collection Appeals [§668.193] | • | • | |
| | Economically Disadvantaged Population Appeals [§668.194] | | • | |
| | Participation Rate Index Appeals [§668.195] | | • | |
| | Average Rates Appeals [§668.196] | | • | |
| | Thirty-or-Fewer Borrowers Appeals [§668.197] | | • | |

### Thirty-or-Fewer Borrowers Appeals

A school that is subject to a loss of FFELP, FDLP, or Federal Pell Grant Program eligibility due to high official cohort default rates may submit this type of appeal if a total of thirty or fewer borrowers are included in the three most recent cohorts of borrowers used to calculate the school's cohort default rates. The Department makes the initial determination that a school qualifies for this type of appeal, and includes a notification regarding that determination in the official cohort default rate notice. If the Department makes an initial determination that a school does not qualify for a thirty-or-fewer borrowers appeal and the school disagrees with that determination, the school must submit its appeal and all supporting documentation to the Department within 30 days after receiving the official cohort default rate notification. Detailed instructions for this appeal process can be found in the *Cohort Default Rate Guide* and federal regulations.
[§668.197; *Cohort Default Rate Guide*]

## 15.5 Consequences of High Official Cohort Default Rates

The Department may impose certain sanctions on schools with persistently high (three most recent official cohort default rates equal or exceed 25%) or excessively high (greater than 40% for the most recent year) official cohort default rates. These sanctions are not imposed on schools that successfully appeal or adjust their cohort default rates (see section 15.4).

### Termination of Eligibility

Unless a school appeals or requests an adjustment to its official cohort default rate, the school loses eligibility to participate in the FFELP and FDLP 30 days after receiving notice that its most recent official cohort default rate exceeds 40%. A school loses eligibility to participate in the FFELP, FDLP, and the Federal Pell Grant Program 30 days after the school receives notice that its three most recent official cohort default rates are 25% or greater, unless the school appeals or requests an adjustment by that date. The loss of eligibility is applicable for the remainder of the fiscal year in which the cohort default rate notice is received and the two subsequent fiscal years. A school will not lose its Federal Pell Grant Program eligibility under this section if the school was ineligible to participate or withdrew its participation in FFELP and FDLP in writing prior to October 7, 1998, and the eligibility was not reinstated, or the school has not certified a FFELP loan or originated a FDLP loan on or after July 7, 1998.

The school may avoid a loss of eligibility by submitting a timely, complete appeal or request for adjustment of its official cohort default rate that results in a recalculation of the rate to below the applicable threshold for loss of eligibility. However, if that request for adjustment or appeal is denied, the school may incur liabilities payable to the Department if it continued to certify and deliver funds later than 30 days after the school received its official cohort default rate notification. The liability period for the school's delivery of FFELP funds ends 45 days after the school submits a completed, timely appeal or request for adjustment to the Department.
[§668.187(a), (b), and (g)]

A school that loses its eligibility on the basis of its cohort default rate must inform all current and potential students that it is no longer eligible to participate in the FFELP and that students who attend may not receive FFELP funds. However, students already attending the school will remain eligible for in-school deferments based on their attendance at the school.

A student who is enrolled at the school and has received the first disbursement of a FFELP loan before the school loses FFELP eligibility may receive any remaining disbursements of that loan if he or she is otherwise eligible. However, a student who is enrolled at the school but has *not* received the first disbursement of a FFELP loan by the date on which the school becomes ineligible may not receive that loan—even if the lender has made the first disbursement but the school has not yet delivered the funds to the student.
[§668.26; §668.187; §682.604(b)(2)(iii)]

### Exemptions from Consequences of High Official Cohort Default Rates

Certain schools may qualify for special relief from the consequences of high cohort default rates for one-year periods beginning on July 1 of the years 1999 through 2003. A school must be one of the following:

- A historically black college or university (as defined in the Act [HEA 322(2)]).
- A tribally controlled community college (as defined in the Tribally Controlled Community College Assistance Act of 1978).
- A Navajo community college (as defined under the Navajo Community College Act).

A school that otherwise qualifies must submit the necessary information and certifications to the Department by July 1 of the first one-year period that begins after the school's

receipt of the notice of loss of eligibility. Additional steps in this exemption process are detailed in the *Cohort Default Rate Guide* and federal regulations.
[§668.198]

### Preventing the Evasion of the Consequences of High Official Cohort Default Rates

In order to prevent a school from evading the consequences of a high official cohort default rate by the merger with or acquisition of another school, a school's loss of FFELP eligibility that is based on a single cohort default rate greater than 40%, or equal to or greater than 25% for each of the three most recent official cohort default rates, is applied to another school that is eligible to participate in the FFELP if all of the following criteria are met:

- Both schools are parties to a transaction that results in a change in structure or identity.
- After the change in structure or identity, the FFELP *eligible* school offers an educational program at substantially the same address at which the FFELP *ineligible* school offered programs before the change.
- There is a commonality of ownership or management between the two schools.

If the Department determines, in response to an application filed under 34 CFR 600.20 or a notice filed under 34 CFR 600.21, that schools meet the above criteria, the Department notifies the eligible school that it is subject to the same loss of FFELP eligibility as the ineligible school. This loss applies to all of the school's locations from the date that the school receives the Department's notification until the expiration of the period of ineligibility applicable to the ineligible school. If a school is subject to such a loss of eligibility, the school may only submit a request for adjustment or appeal that would be applicable to the ineligible school.
[§668.188]

## 15.6 Cohort Default Rates for Lenders and Holders

Each year, the Department calculates and publishes FFELP cohort default rates for each lender and holder based on data for each lender identification number. The rate is calculated from information supplied by guarantors.

There are currently no consequences for lenders and holders associated with FFELP cohort default rates. However, a lender or holder may wish to appeal its rate if it identifies discrepancies in the data used to calculate its rate. Currently, an appeal based on erroneous data is the only FFELP cohort default rate appeal available to lenders and holders.

### The Appeal Process

Following are procedures for appealing a lender or holder FFELP cohort default rate on the basis of erroneous data:

- The lender or holder should promptly request backup data from the guarantor. The request should be signed by an official of the lender or holder who is authorized to act on its behalf in this regard.
- After reviewing the backup data, the lender or holder should submit documentation supporting its claim of erroneous data to the guarantor. Each record submitted should be clearly identified with the borrower's name, Social Security number, and the nature of the error. This documentation may include items such as notices of change of enrollment, canceled checks, or other information pertinent to resolving the discrepancy.
- The guarantor responds to the lender or holder regarding the appeal (with a copy to the Department) and the lender or holder should send a letter to the Department indicating whether it agrees with the guarantor's conclusion.

The Department will make the final ruling on whether to adjust the lender's or holder's FFELP cohort default rate based on the information provided.

### Additional Information

Information on lender and holder FFELP cohort default rates may be obtained by contacting the Department's Financial Partners staff. Correspondence regarding lender or holder appeals of FFELP cohort default rate data must be addressed to:

U.S. Department of Education
Default Coordination Team
Financial Partners
Room 4616, ROB-3
600 Independence Avenue, S.W.
Washington, DC 20202-5138

# 16 Program Reviews


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Guarantors are required by federal regulations to conduct comprehensive biennial program reviews of certain schools and lenders participating in the FFELP. Guarantors, at their option, may elect to review third-party servicers.

Program reviews are conducted by the guarantor and the Department to assess the administrative and financial capability of schools, lenders, and servicers with respect to participation in the FFELP. Chapter 16 describes the criteria used in determining which entities are reviewed, the various stages of the review process, and the most common findings in program reviews.

All references to lenders in this chapter include the originating lender and any subsequent holder, as defined in section 3.1.

## 16.1 Purpose and Scope of Program Reviews

A program review measures an entity's compliance with all applicable requirements related to its FFELP participation and administration. Schools, lenders, and servicers participating in the FFELP must comply with the requirements of:

- The Higher Education Act of 1965, as amended.
- Federal regulations (§600, §668, and §682).
- Guarantor policies and procedures.

A review is intended to ensure compliance with these provisions and to assess the financial viability of a school or lender.

A guarantor is required to conduct a biennial on-site program review of each school and lender that meets criteria specified in federal regulations (see subsections 16.2.A and 16.2.B). If a lender or school uses a servicer to meet some or all of its responsibilities under the FFELP, all or a portion of the program review may be conducted at the servicer. However, the school or lender remains responsible for the results of the review. Lenders and schools must work closely with their servicers to ensure consistent compliance with federal regulations and guarantor policies and procedures.

In some cases, a guarantor may conduct a joint school, lender, or servicer review with another entity (such as the Department, a state licensing agency, etc.). When a joint review is conducted, each reviewing entity is responsible for the quality of the review. Also, a guarantor may establish a reciprocal agreement with another entity to perform reviews. Under a reciprocal agreement, the entity performing the review is solely responsible for review quality.

## 16.2 Selecting Entities for Program Review

A guarantor selects entities for program review based on requirements prescribed in federal regulations and other criteria it considers pertinent to the efficient, effective administration of the FFELP.

### 16.2.A Selection Criteria for Schools

Federal regulations require the guarantor to perform a biennial program review of each school—in any state in which it is the primary guarantor—that has had a cohort default rate exceeding 20% for either of the two most recent years for which rates have been calculated. A school may be exempted from review if it meets either of the following criteria:

- The school has a cohort default rate exceeding 20%, but it has less than $100,000 in loans entering repayment in each of the two applicable years.
- The school is required by the Department to follow specific default reduction measures as a result of its cohort default rates (see chapter 15). [§682.410(c)(1)(i)(C)]

The guarantor may request that the Department approve substitutions to its list of required school reviews. As part of such a request, the guarantor must present the method used to select alternate review candidates, a list of the requested changes to the review schedule (which schools are to be substituted for others), and its justification for the substitutions.

In addition to the federal criteria used in selecting schools for review, a guarantor may consider other factors, including:

- Loan volume trends (such as a substantial increase or decrease over the past year).
- Significant increases in cumulative or cohort default rates.
- Evidence of regulatory violations, such as:
  - Late or unpaid refunds.
  - Improper admissions procedures.
  - Improper loan check processing procedures.
- Evidence of potential fraud or abuse in its FFELP participation.
- Evidence that the school has been placed on the Pell reimbursement system for payment.
- Complaints from lenders, borrowers, or students.
- Evidence that the school has failed to adequately address deficiencies identified in prior program reviews.
- Evidence that the school has failed to implement improvements to reverse negative financial trends.
- Weaknesses identified during the process by which schools first obtain FFELP eligibility.

## 16.2.B
## Selection Criteria for Lenders and Servicers

Federal regulations require a guarantor to perform a biennial program review of each lender—and/or servicer for that lender—that meets one of the following criteria with respect to the volume of FFELP loans made or held by the lender, and guaranteed by the guarantor, during the preceding year:

- The lender's volume represented 2% or more of the guarantor's volume of FFELP loans guaranteed during the preceding year.
- The lender was one of the guarantor's top ten lenders as measured by its volume for the preceding year.
- The lender's volume during the most recent fiscal year equaled or exceeded $10 million.

A guarantor also is required to review each holder of loans that functions in a designated state as a private, nonprofit secondary market.
[HEA 435(d)(1)(D) and (J); §682.410(c)(1)]

A guarantor may request that the Department approve substitutions to the list of required lender reviews. As part of this request, the guarantor must provide its methodology used for alternate selections, a list of the requested changes to the review schedule (which lenders are to be substituted for others), and justification for the substitutions.

In addition to the federal criteria used in selecting lenders for review, a guarantor may consider other factors, including:

- Loan volume trends (such as a substantial increase or decrease over the past year).
- Significant increases in cumulative or cohort default rates.
- Evidence of regulatory violations, such as:
  - Incorrect ED Form 799 billings.
  - Improper due diligence.
  - Late conversions of loans to repayment.
  - Improper claim filing procedures.
- Evidence of potential fraud or abuse in its FFELP participation.
- Complaints from schools, students, or borrowers.

## 16.3
## The Program Review Process

A program review begins when the school, lender, or servicer is selected for review according to federal or guarantor criteria. The review ends when the guarantor accepts a satisfactory response to the review findings from the school, lender, or servicer.

A program review consists of four distinct phases:
- The preliminary review
- The on-site review
- The issuance of a program review report
- The review close-out

These phases are described in the following four subsections.

## 16.3.A
## The Preliminary Review

During the preliminary review, a guarantor establishes contact with the school, lender, or servicer to be reviewed. The entity is advised that it has been selected for a program review and is notified of the date(s) of the on-site review. The notification letter requests that the party being reviewed provide specific administrative and financial information related to its eligibility and participation in the FFELP. This information normally includes, but is not limited to:

*For Schools*
- School catalog
- Documentation from prior program reviews
- Independent audit results
- Student Financial Aid audit results
- Audited financial statements
- Program Participation Agreement (PPA)
- Accreditation reports/certification
- State licensing documentation
- Default management plan, if applicable
- National Student Loan Data System (NSLDS) rosters, reporting, and procedures
- Individual borrower files

*For Lenders*
- FFELP lending policies
- Documentation from prior program reviews
- Independent audit results
- Audited financial statements
- ED Form 799 billings
- Documentation of loan transfers
- NSLDS Lender Manifest, error reports, unreported loan reports, and procedures
- Individual borrower files

*For Servicers*
- System procedures and internal controls
- Details on accuracy of data retained or transmitted
- Interest billing information for lenders, if applicable
- Documentation from prior program reviews
- Audited financial reports
- Independent audit results
- NSLDS Lender Manifest, error reports, unreported loan reports, and procedures
- Individual borrower files

A guarantor also may require the school, lender, or servicer to complete a questionnaire on internal procedures and policies related to its FFELP participation.

Prior to an on-site review, a guarantor will develop a profile of the entity to be reviewed from the information provided by that entity and other data maintained by the guarantor. This profile is used to acquaint a reviewer with the institution and to expedite an efficient and thorough review.

To ensure that an appropriate cross-section of the entity's borrower files will be examined, the guarantor also identifies a sample of the entity's borrower population for review. These files will be reviewed by the guarantor during the on-site visit.

# 16.3.B
# The On-Site Review

The on-site review has three key components: the entrance interview, the review of borrower files and supporting documentation, and the exit interview.

### Entrance Interview

During the entrance interview, the school, lender, or servicer is informed about the review process and given the opportunity to present questions or concerns to the reviewer(s).

A school should ensure that representatives from its financial aid, admissions, registrar's, and bursar's or business offices are present at the entrance interview. These officials also should be available during the on-site review of borrower files and at the exit interview to answer questions or supply additional material if necessary.

A lender should ensure that individuals representing the areas of application processing, disbursement, repayment servicing, due diligence, collections, claim filing, and ED Form 799 billing are available during the entrance, on-site, and exit phases of the review.

A servicer should ensure that representatives of each function that it performs for clients are available.

### Review of Borrower Files and Other Documentation

The on-site review of selected borrower files, and of all materials and procedures related to the entity's participation in the FFELP, is performed to evaluate compliance with federal regulations and adherence to guarantor policy. The review is also undertaken to identify areas where additional training or corrective action may be appropriate. During the review of borrower files and other documentation, entity representatives may be informed of major concerns and issues needing clarification.

Following are several key items to be reviewed for each type of entity. A guarantor may choose to review other items not included on these lists.

*For Schools*

- Admissions requirements
- Enrollment agreements and contracts
- Statements of selective service registration
- Statements of educational purpose
- Citizenship status
- Pell Grant eligibility
- Financial Aid Transcripts (FATs)
- Verification and certification process, if required
- Student budget and cost of attendance (COA) calculation
- Satisfactory academic progress (SAP) standards/ enforcement
- Leaves of absence
- FFELP loan check processing procedures
- EFT and master check procedures
- Determination of withdrawal dates
- Refund calculation and notification
- Entrance and exit counseling
- Withdrawal rate
- Student Status Confirmation Reports (SSCRs)
- National Student Loan Data System (NSLDS) rosters, reporting, and procedures
- Overall administrative capability
- Separation of duties
- Adequacy of staffing
- Financial responsibility
- Prior program review findings
- Attendance records
- Loan information and supporting documentation
- Stafford Master Promissory Note (Stafford MPN) Notification or Confirmation procedures
- PLUS Application and Master Promissory Note (PLUS MPN) procedures for obtaining the requested loan amount from the parent borrower.

*For Lenders*

- Loan amounts
- Interest rates
- Disbursement procedures
- Disclosures of rights and responsibilities
- PLUS loan credit checks
- Out-of-school dates
- NSLDS Lender Manifest, error reports, unreported loan reports, and procedures
- Conversion of loans to repayment
- Application of prepayments and refunds
- Deferments and forbearances
- Interest accrual and capitalization
- Due diligence
- Skip tracing
- Claim filing
- ED Form 799 billings
- Reconciliation of loan sales/acquisitions
- Prior program review findings
- Loan information and supporting documentation
- Stafford Master Promissory Note (Stafford MPN) Notification or Confirmation procedures
- PLUS Application and Master Promissory Note (PLUS MPN) procedures for obtaining the requested loan amount from the parent borrower.

*For Servicers*

- Prior program review findings
- Audited financial statements
- System of control
- Functions noted for schools and lenders in the preceding lists, if performed by the servicer

### Exit Interview

The exit interview is used to inform the school, lender, or servicer of any concerns or findings of noncompliance. In addition, the exit interview allows the entity an opportunity to clarify remaining issues and pose questions or concerns about the review. Generally, information discussed during the exit interview will be included in the final program review report issued by the guarantor.

## 16.3.C
## Program Review Report

The program review report is written by the guarantor and issued to the school, lender, or servicer. The report identifies all borrower files reviewed, any findings of noncompliance, and any required corrective actions. The report also may list recommendations in the case of findings that may not warrant corrective action, but that the entity should address nonetheless.

A school, lender, or servicer must complete all required actions noted in the report by the date indicated. In addition, the entity must prepare and submit a response to the program review report to the guarantor by the date indicated in the report. If the report notes liability due as a result of the review, the entity is instructed how to make payment and is informed of the date by which the payment is due.

### Common Findings

Schools, lenders, and servicers should perform internal audits—and obtain, as applicable, a lender's or servicer's audit—to assess compliance in the following areas. Following are the most common program review findings for schools, lenders, and servicers. These are the areas that most frequently result in problems or liabilities (see sections 3.8 and 4.13 for additional information).

*For Schools*

- Improper administration of admission requirements (such as ability-to-benefit and high school diploma and General Education Development (GED) Certificate requirements)
- Improper loan application certification
- Eligibility documentation for noncitizens missing
- Student Aid Reports (SAR) or Institutional Student Information Reports (ISIR) missing or not available at the time a FFELP loan was certified
- Improper verification (such as missing or unsigned documents)
- Student budget exceptions (such as cost of attendance [COA], expected family contribution [EFC], and estimated financial assistance [EFA] discrepancies)
- Improper satisfactory academic progress (SAP) standards or enforcement
- Enrollment status discrepancies
- Improper National Student Loan Data System (NSLDS) reporting and procedures
- Entrance or exit counseling not conducted or documentation missing
- Improper performance of return of Title IV funds procedures, including incorrect calculations, late returns to lenders, and funds returned to the wrong Title IV program
- Incorrect application of return of Title IV funds requirements

*For Lenders*

- Improper interest rates
- Improper endorsement on disbursement checks
- Original or copy of promissory note missing from file[1]
- Guarantee disclosure missing from file
- Incorrect out-of-school date
- Improper NSLDS reporting and procedures
- Late conversion to repayment
- Untimely updating of address and telephone number changes
- Deferment or forbearance granted improperly
- Improper or inadequate due diligence performed
- Unreconciled loan transfers/acquisitions
- Borrower not notified of loan sale when there is a change in the party to which the borrower must send future payments and communications
- Errors on ED Form 799 in origination fee calculations, interest billings, or special allowance reporting

*For Servicers*

- Due diligence violations in loan servicing
- Insufficient controls to ensure proper and prompt funds movement between the school, lender, and/or servicer
- Improper reconciliation of school or lender records to servicer records
- Improper NSLDS reporting and procedures

## 16.3.D Program Review Close-Out Procedures

The process of closing a program review begins when the program review report is issued to the school, lender, or servicer. The process of closing a program review ends when all required actions are completed and all liabilities are paid by the entity. When this has occurred, the guarantor will notify the school, lender, or servicer in writing that the program review is closed. The Department will also be notified when the program review is closed.

If a guarantor is unable to close a program review because the school, lender, or servicer is uncooperative in taking the required corrective action, the case will be referred to the Department for follow-up.

The guarantor may pursue a limitation, suspension, or termination action as a result of a program review. Limitation, suspension, and termination provisions are described in chapter 17.

If potential fraud or abuse with respect to FFELP participation is identified during a review, the reviewer is obligated to notify and forward all supporting documentation to the Department's Office of Inspector General.

# 17 Limitation, Suspension, and Termination


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Chapter 17 outlines the process under which the participation of an eligible school, lender, or servicer may be limited, suspended, or terminated. A guarantor is required to establish and publish standards regarding limitation, suspension, and termination (LS&T) proceedings, as prescribed in the Higher Education Act of 1965, as amended (the Act), and federal regulations.

In this chapter, the word entity refers to schools, lenders, and secondary markets.

## 17.1 Actions to Limit, Suspend, or Terminate Participation

Federal law requires guarantors to vigorously enforce all federal and state laws applicable to the federal loan programs. Specifically, a guarantor is required to conduct compliance reviews of participating schools, lenders, and secondary markets—and to limit, suspend, or terminate participation in the event of noncompliance. If a guarantor finds indications of fraudulent or criminal activity, it must refer the matter to the appropriate law enforcement agencies. If the entity or its owner is convicted of, or pleads no contest or guilty to, unlawful activities with respect to FFELP funds, grounds for termination of an entity's eligibility to participate in the FFELP are established. [§682.410(c); §682.706]

In fulfilling its responsibility as a regulator, a guarantor closely cooperates with licensing and accrediting agencies, the Department, and other appropriate organizations.

### When an LS&T Action May Be Warranted

A guarantor may initiate a limitation, suspension, or termination action if it obtains reliable information demonstrating any of the following:

- An entity has failed to meet requirements applicable to its participation in the FFELP. These requirements are defined in federal and state law and regulations, guarantor policies and procedures, Department and guarantor agreements, and any previously imposed limitations.

- A participating entity no longer meets eligibility requirements for FFELP participation (for example, an entity loses its licensure or accreditation).

- One or more employees of the entity have misrepresented information or engaged in fraudulent activities.

An LS&T action does not limit an entity's responsibility to comply with all requirements applicable to FFELP participation—nor does an LS&T action limit the entity's right, if any, to benefits or payments based on previous participation in the guarantor's programs.

If the Department restricts an entity's FFELP eligibility through an LS&T action or emergency action, federal law requires that guarantors impose the same restriction on the entity.

### Actions to Remove a Servicer's Eligibility

The U.S. Department of Education or a designated Department official may take action to remove a third-party servicer's eligibility to contract with a participating lender or school for an indefinite period of time. [§682.701; §682.706]

### Individuals Involved in LS&T Proceedings

Throughout this chapter, references are made to individuals who will be appointed to function in various capacities during any LS&T proceeding:

- The *Official* is the president or chief executive officer of the guarantor—or any officer of the guarantor to whom the president or chief executive officer has delegated the responsibility for initiating an action under the provisions of this chapter.

- The Hearing Officer is the person who presides over the hearing, if one is requested by the entity. The Hearing Officer must be a person with no previous involvement with the facts giving rise to a dispute under this chapter. The Hearing Officer is selected by the guarantor and may be employed by the guarantor.

- The *Show-Cause Official* is the person who has the authority to grant relief in an entity's appeal of an emergency action (see subsection 17.1.D). The Show-Cause Official must not be the initiating Official of the emergency action.

## 17.1.A Limitation

A limitation action restricts the FFELP participation of an entity under the guarantor's programs.

A guarantor may initiate a limitation action as a result of the entity's failure to respond to a guarantor's notice of action or as a result of a decision by the Hearing Officer. The action may contain an ending date for the limitation, or it may be effective for an indefinite period. The terms of the limitation may include instructions for the entity to make restitution (repay funds) for violations resulting in losses to FFELP participants.

### Limitation of a School

Limitation of a school may include, but is not limited to, the following provisions:

- A limit on the number or percentage of enrolled students who may obtain FFELP loans.
- A requirement that the school obtain a bond of a specified amount to ensure its ability to meet its financial obligations.
- A limit on the percentage of the school's total receipts for tuition and fees that may be derived from FFELP loans for a specific period of time.
- Other reasonable limits on the school's participation in a guarantor's programs.

### Limitation of a Lender

Limitation of a lender may include, but is not limited to, the following provisions:

- A limit on the number or total dollar amount of FFELP loans that the lender may make, purchase, or hold.
- A limit on the number or total dollar amount of FFELP loans that the lender may make for students enrolled at a particular school.
- Other reasonable limits on the lender's participation in the guarantor's programs.
  [§668.93; §682.702]

## 17.1.B Suspension

Under a suspension action, the guarantor ceases processing and guaranteeing loans that would otherwise be made for students attending a suspended school or that would be made by a suspended lender. A suspension action does not preclude the disbursement by a suspended lender, or the delivery by a suspended school, of loans that were guaranteed before the suspension action—unless specifically stated in the notice of suspension.
[§668.85; §682.705]

A guarantor may initiate a suspension action as a result of the entity's failure to respond to a notice of action or as a result of a decision by the Hearing Officer. If a suspension action is initiated, a notice is sent by certified mail (return receipt requested). An effective date for the suspension is disclosed in this notice; the effective date will be set at least 20 days after the date the notice is mailed. A suspension action removes the entity's eligibility to participate in the FFELP for a maximum of 60 calendar days, unless either of the following occurs:

- The Official and the entity (if the entity has not requested a hearing) agree to an extension of the suspension action—not to exceed 30 calendar days.
- The Official begins a limitation or termination action, in which case the suspension action continues until the other hearing, including the notification period, is complete.
  [§668.85; §682.705(a)]

## 17.1.C Termination

A termination action rescinds an entity's eligibility to participate in the FFELP under the guarantor's programs. The action prohibits a lender from disbursing, or a school from delivering, any new loan proceeds. Lenders also may be prohibited from making further disbursements on loans that were guaranteed before the effective date of the termination.
[§668.94; §682.702(d)]

A guarantor may initiate a termination action by sending a notice of the action to the entity by certified mail (return receipt requested) or by other means consistent with any agreement between the guarantor and the entity. The latter means may be used if it is determined by the Department or guarantor that the entity fails to comply with requirements applicable to its participation in the FFELP. These requirements include those defined in federal and state law and regulations, guarantor policies and procedures, Department and guarantor agreements, and any previously imposed limitations.
[§668.86(b); §682.706(a)]

## 17.1.D Emergency Action

A guarantor may initiate an emergency action to immediately suspend an entity's eligibility for up to 30 days. A guarantor is authorized by the Act to take emergency action if it has information supporting both of the following:

- An entity is not complying with requirements applicable to its participation in the FFELP. These requirements include those defined in federal and state law and regulations, guarantor policies and procedures, Department and guarantor agreements, and any previously imposed limitations.

- Immediate action is necessary because the alleged noncompliance will result in misuse of federal funds—or substantial losses to the guarantor, student, borrower, or the federal government.

An emergency action by the guarantor bars further processing or guaranteeing of loans for a specified period. The action does not prohibit the disbursement or delivery of loans guaranteed before the emergency action, unless specific notification is made.

A guarantor may initiate an emergency action if it has reasonably determined that the likelihood of loss outweighs the importance of following the LS&T proceedings detailed in this chapter. A guarantor's decision to take an emergency action is not subject to review.

### Appealing an Emergency Action

An entity may appeal an emergency action by requesting, in writing, an opportunity to show cause that the emergency action is unwarranted. Upon receiving a request for a show-cause hearing from the entity, the guarantor will appoint a Show-Cause Official and promptly inform the entity of the hearing location and date.

The only information that may be presented at a show-cause hearing is information concerning whether the emergency action is warranted. The entity has the burden of demonstrating that the emergency action is not warranted or that it should be modified. The Show-Cause Official will evaluate any material provided and make a final determination on the validity of the emergency action. The guarantor will notify the entity of the Show-Cause Official's decision by indicating whether the emergency action remains in effect or has been canceled. The Show-Cause Official's decision on the emergency action is final and will promptly be reported in writing to all concerned parties.
[§668.83; §682.704]

### When an Emergency Action Ends

An emergency action ends no more than 30 days after the initial effective date (the date the notice was sent by the guarantor), unless the entity is notified that the guarantor has initiated an LS&T action during the emergency action. If an LS&T action has begun, the emergency action remains in effect until the LS&T proceedings are concluded. In this case, the terms of the emergency action are converted to the terms of the LS&T action as specified by the Hearing Officer. If an emergency action expires before a subsequent LS&T action begins, the entity must treat loans that have not yet been disbursed or delivered in accordance with any terms of agreement in the emergency action.
[§668.83; §682.704]

The guarantor and the entity may enter into an agreement that fully or partially resolves the dispute between the parties. If the agreement fully resolves the dispute, and the agreement so specifies, any pending hearing may be canceled. If the entity violates any of the provisions of the agreement, the guarantor may again take any action outlined in this chapter or the agreement.

## 17.2 Proceedings

A guarantor initiates a limitation, suspension, or termination by sending notice of the action to the entity by certified mail (return receipt requested).

An action is effective no earlier than 20 days after the date the notice is mailed. The notice informs the entity of the action, the consequences of the action, the alleged violations that constitute the basis for the action, the legal basis for the action, and the right of the entity to appeal. The entity also is notified that it has a specific number of days in which to respond to the notice and that failure to respond within that time frame will result in the action taking effect automatically. The guarantor is required to notify the Department of any final action.
[§668.85(b)(1); §668.86(b)(1); §682.410(c)(9)(i); §682.705(b)(1); §682.706(a)]

## 17.2.A Appealing an LS&T Action

An entity may challenge an LS&T action by submitting a written appeal to the guarantor. The notice must specify which of the following two appeal options is being exercised:

- *Appeal by Submission*
  The entity may submit a written appeal and supporting documentation. If submitted by the guarantor's deadline, the Official will consider the appeal and notify the entity of the decision to dismiss the proposed action or make the action effective on a specified date.

- *Appeal by Hearing*
  The entity may request a hearing. If a written request is received by the guarantor on or before its deadline, a hearing will be scheduled and the LS&T action, if applicable, will not be imposed until the appeal process is completed. If a request for a hearing is not received by the guarantor's deadline, the entity's right to a hearing is considered to be waived.

An entity may cancel an appeal by providing the guarantor with a written statement withdrawing the appeal and acknowledging that the applicable LS&T action is in effect.
[§668.85(b)(2) and (3); §668.86(b)(2) and (3); §682.705(c); §682.706(b)]

## 17.2.B Prehearing Conferences and Informal Compliance Procedures

An affected entity may request an opportunity to attempt to settle or narrow an LS&T action prior to the hearing described in subsection 17.2.C. In an LS&T action, a prehearing conference is available to either a school or a third-party servicer, and an informal compliance procedure is available to either a lender or a servicer under contract with a lender.

### Prehearing Conference

A Hearing Officer may convene a prehearing conference if it appears that such a conference would be useful or if the conference is requested, within the time frames established in 34 CFR 668.86(b)(1)(ii), by one of the following parties:

- The designated Department or guarantor Official who brought the proceeding against the school or the third-party servicer.

- The school.

- The third-party servicer.

The purpose of a prehearing conference is to attempt to settle or narrow the dispute. Upon agreement between all applicable parties, a prehearing conference may consist of a telephone conference call, an informal meeting, or the submission and exchange of written material between the Hearing Officer, the Official (as defined in section 17.1), and the school or, if applicable, the third-party servicer.

In a prehearing conference, the Hearing Officer and representatives of the parties may discuss the proposed action. Information may be exchanged on appeal procedures, a settlement, or a narrowing of the legal or factual issues to be resolved at the hearing. A prehearing conference is not subject to procedural requirements, except those to which the Hearing Officer, the Official, and the school or, if applicable, the third-party servicer, agree. As a result of the prehearing conference, the Hearing Officer, the Official, and the school or, if applicable, the third-party servicer, may enter into a prehearing agreement, signed by all applicable parties, stipulating certain facts, procedures, or points of law. With the approval of the Hearing Officer and the consent of all applicable parties, any schedule specified in this chapter may be shortened.
[§668.85; §668.86; §668.86(b)(1)(ii); §668.87; §682.401(b)(6)(i)]

### Informal Compliance Procedure

An informal compliance procedure may be scheduled if reliable information or a complaint is received indicating that a lender or servicer may be in violation of FFELP laws, regulations, special arrangements, agreements, or limitations entered into under the authority of statutes applicable to Title IV of the HEA. This affords the lender or servicer a reasonable opportunity to respond to the complaint or information and show that the complaint or alleged violation is without merit, to show that the violation has been corrected, or to submit an acceptable plan for correcting the violation and preventing its recurrence.

If the informal compliance procedure includes an LS&T action, the LS&T action is not delayed if the delay would harm the FFELP or if the informal compliance procedure would not result in correction of the alleged violation. [§682.401(b)(7)(i); §682.703]

## 17.2.C Hearing

The Official will set the date and location of a hearing and will promptly inform the entity. The hearing date will be at least 15 days after the date the guarantor receives the hearing request. The hearing may be set in any city in which the guarantor's offices are located and that reasonably affords the entity an opportunity to participate.

Before the hearing, the Hearing Officer may issue a prehearing order to provide for a timely exchange of exhibits and a list of witnesses. The Hearing Officer presides over the presentation of evidence, followed by argument, and, if the Hearing Officer requests, submission of written briefs. The Hearing Officer may take appropriate measures to expedite the proceedings, which may include setting a schedule for the submission of written documents and legal memoranda, setting page limits on the filing of memoranda, and regulating the conduct of the parties to ensure a fair, impartial hearing. The Hearing Officer may consider a party that fails to comply with the orders of the Hearing Officer as being in default and may issue a decision—without a hearing—against the noncomplying party.

The Hearing Officer does not have the authority to issue subpoenas (except in Kentucky). If requested by the Hearing Officer, the guarantor and the entity must provide available personnel, who have knowledge about the matters under review, for examination under oath. Examinations may be conducted orally or in the form of written interrogations.

Formal rules of evidence and procedures applicable to a court of law normally do not apply.* Cross examination necessary for a full disclosure of the facts is permitted. The entity may be represented by legal counsel at the hearing, but the guarantor is under no obligation to provide such counsel. Formal rules of discovery normally do not apply, but the parties are encouraged to exchange relevant documents or information. The Hearing Officer may exclude evidence that is irrelevant, immaterial, unduly repetitious, or inherently unreliable.

*In some states (such as Illinois), state law requires that formal rules of evidence be observed in an LS&T hearing.

The guarantor will present its case first and has the burden of proving by a preponderance of the evidence that its action is warranted. A record must be made of the hearing, with a copy made available to the entity. Any other parties requesting a copy of the transcript must pay the cost of reproducing and delivering the transcript.

The decisions of the Hearing Officer will be based on findings of fact and conclusions of law. The Hearing Officer must base the findings of fact only on evidence considered at the hearing or stipulated to by the parties. The Hearing Officer must issue an initial written decision following the hearing's conclusion. The decision will be sent by certified mail (return receipt requested). [§668.90(a)(1)(iii); §682.706(b)(3)(iii)]

If the decision upholds a limitation, suspension, or termination, the effective date of that action will be the 20th day following the date on which a copy of the decision is mailed to the entity or on the effective date indicated in the decision, whichever is later. The guarantor must formally notify the Department of any action taken. [§682.410(c)(9)(i)]

## 17.2.D
## Action by the U.S. Department of Education

The Department is to complete a review of an action taken by the guarantor within 60 days after being notified, unless the entity waives its right to such a review. The Department's review of the proceedings is intended to ensure that the sanctions imposed are in accordance with the Act and applicable federal regulations. If the action is determined by the Department to be valid, the Department may notify all guarantors of the eligibility restriction imposed on the entity.
[§682.712; §682.713]

## 17.2.E
## Appealing a Final Determination

An entity may appeal the final determination made by an Official or Hearing Official. Such an appeal may be made to the Department within 30 days of the entity's receipt of the ruling. The appeal should include a written explanation of why the decision should be modified. Copies of the appeal request must be sent to all parties involved in the action.
[§668.90; §682.707]

*Some guarantors permit an appeal of the Hearing Officer's decision to a designated guarantor official, usually the Chief Executive Officer, before appeal to the Department. Entities will be notified of this option, if available, through materials provided by the guarantor.*

Limitation and termination cannot take effect during the appeal process unless it is determined that a delay in the effective date will adversely affect the FFELP, students, or borrowers.
[§682.707]

## 17.2.F
## Offsets, Reimbursements, and Refunds

If, as a result of the final decision in an LS&T proceeding, an entity is required to pay a financial liability to the Department, the guarantor, or other program participants, such participants may offset these liabilities against any benefits or claims due to the entity. Neither the Department nor the guarantor is required to provide additional notices or hearings to expedite the offset process.
[§668.95; §682.709]

## 17.3
## Removal of Limitation

An entity may request removal of a limitation action no earlier than 12 months after the action begins. A written request must be sent to the guarantor and must reflect the measures that the entity has taken to correct problems that resulted in violations on which the original action was based. Upon receiving the request, the Official will review the request and either grant the request, deny the request, or grant the request subject to other limitations.

If the Official denies the request to remove the limitation, or responds to the request with other limitations, the entity may request and be granted the opportunity to show why the limitation should be removed in part or in full. This opportunity may include a meeting with the Hearing Officer if the entity requests it. Pending an appeal, the entity may continue FFELP participation to the extent that it is not restricted by the previously established limitation.
[§668.97; §682.710]

## 17.4
## Reinstatement after Termination

An entity that has had its FFELP participation terminated may request a reinstatement of eligibility no earlier than the end of the 18th month after the effective date of the termination action. A written request must show that the entity has corrected the problems that resulted in the violations and that it meets all eligibility requirements. If a school that also functioned as a lender was terminated as both a participating school and lender, the school may not be reinstated as a lender until it is reinstated as a school and has participated satisfactorily as a school for a period of at least 12 months.

The Official must respond to a request for reinstatement within 60 days of receiving it. He or she may grant the request, deny the request, or grant the request subject to limitations. If the Official grants the reinstatement request subject to certain limitations, the entity may request a hearing and be granted an opportunity to show why the entity should be fully reinstated without limitation.
[§668.96; §668.97; §682.711]

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The U.S. Department of Education compensates lenders participating in the FFELP through a combination of interest benefits and special allowance payments:

- Interest benefits are paid to lenders on behalf of eligible borrowers with subsidized FFELP loans, when such loans are in qualifying statuses (see subsection A.1.B). The subsidy status of a loan is determined at the time the loan is made.

- Special allowance payments are intended to bring a lender's earnings on eligible FFELP loans closer to market rates. Special allowance rates vary according to when the loan was disbursed, the period of enrollment for which it was intended, and, in some cases, the loan's status.

A lender requests payment of interest benefits and special allowance by submitting a Lender's Interest and Special Allowance Request and Report (ED Form 799) to the Department. In completing this form, the lender reports the current status and outstanding balance of each FFELP loan in its portfolio and pays fees due on newly originated FFELP loans. An ED Form 799 must be filed quarterly, within 90 days of the quarter end. See section A.3 for more information on ED Form 799.

Appendix A describes eligibility criteria for federal interest benefits and special allowance, and outlines the general procedures lenders must follow to receive these subsidies.

## A.1 Federal Interest Benefits

By paying a lender federal interest benefits, the Department is paying the interest that accrues on a qualifying loan or the qualifying portion of a loan on behalf of the borrower. Interest benefits may be paid—subject to the criteria noted in the following subsections A.1.A and A.1.B—only on the following:

- Subsidized Stafford loans.

- Consolidation loans made from applications received between January 1, 1993, and August 9, 1993, inclusive, excluding any portions derived from underlying HEAL loans.

- Consolidation loans made from applications received between August 10, 1993, and November 12, 1997, inclusive, where all loans consolidated were subsidized Stafford loans.

- Consolidation loans made from applications received on or after November 13, 1997, for any portion of the Consolidation loan that paid a subsidized FFELP loan or a subsidized Direct loan.

- Federally Insured Student Loans (FISL loans). [HEA 428(a); HEA 428C(b)(4)(C)]

For information on the criteria borrowers must meet to qualify for subsidized Stafford loans (on which interest benefits will be paid during certain periods), see subsection 6.14.A.

## A.1.A
## Amount of Federal Interest Benefits

The Department will pay interest benefits on a loan at a rate equal to the actual interest rate at which the loan accrues. This actual interest rate may not exceed the applicable maximum interest rate specified in law for such a loan. [§682.300(d)(1)]

Statutory maximum interest rates for qualifying loans vary widely according to several factors. Information on applicable statutory interest rates for Stafford loans is presented in Figure 7-1. Information on interest rates for Consolidation loans is provided in subsection 14.3.D.

*Exception: For federal education loans disbursed on or after August 3, 1968, but before December 15, 1968, an interest benefit of 3% of the unpaid* principal balance *is paid annually during the* repayment period *of the loan. Interest benefits equal to the full 6% or 7% interest rate, as applicable, are paid only during periods of* deferment. [§682.300(d)]

## A.1.B
## When Federal Interest Benefits Will Be Paid

Interest benefits are paid on subsidized Stafford loans, qualifying Consolidation loans, and any qualifying portions of Consolidation loans when the loans are in an in-school, grace, deferment, or post-deferment grace status.

The borrower is responsible for paying the interest that accrues during all other periods. [§682.300(b)(1)]

### Beginning Date

For a subsidized Stafford loan, the earliest date on which the Department will begin paying interest benefits on the loan is based on when the loan is disbursed with respect to the first day of the period of enrollment and the method of disbursement:

- If a loan is disbursed *on or before* the first day of the period of enrollment and the funds are disbursed—
  - By individual borrower check, the lender may begin accrual of interest benefits on the later of 10 days before the first day of the period of enrollment or the date of disbursement.
  - By master check or EFT, the lender may begin accrual of interest benefits on the later of 3 days before the first day of the period of enrollment or the date of disbursement.
- If a loan is disbursed *after* the first day of the period of enrollment, regardless of the disbursement method, the lender may begin accrual of interest benefits 3 days after the date of disbursement.

For second and subsequent disbursements, accrual of interest benefits begins on the date that the second or subsequent disbursement is made.

For a subsidized Stafford loan subject to delayed delivery requirements (a first-year, first-time undergraduate Stafford loan borrower attending a school subject to delayed delivery provisions), the lender may begin accrual of interest benefits on the loan as follows:

- 3 days after the date of the first disbursement if the funds are disbursed by either master check or EFT, regardless of when the funds are disbursed.
- On the date the first disbursement is made for funds disbursed by individual check on the first date of the period of enrollment.
- 3 days after the date of the first disbursement if the funds are disbursed by individual check after the first day of the period of enrollment.

More information on delayed disbursement is included in section 6.4 and subsections 7.7.A, and 8.7.D.

The payment of interest benefits on a subsidized Stafford loan continues through the period during which the borrower is continuously enrolled at least half time in school and through the grace period. If a borrower qualifies for a deferment after entering repayment on the loan, the Department's obligation to pay interest benefits resumes on:

- For in-school deferments, the date on which the borrower's qualifying enrollment begins.
- For other deferments, the later of the first day on which the borrower qualifies for the deferment or 6 months before the date on which the lender receives any required borrower request and documentation of eligibility for the deferment.

For a subsidized Consolidation loan or any portion of a Consolidation loan that is subsidized, the lender may begin billing the Department for interest benefits on the later of the first date that the borrower qualifies for a deferment or, for deferments other than in-school deferments, 6 months before the date on which the lender receives any required borrower request and deferment documentation.

### Ending Date

The Department's obligation to pay federal interest benefits ends on the earliest of the following dates, as applicable:

- The date the loan is fully repaid.
- The date the borrower defaults.
- The date the lender receives notice of the guarantor's determination that the loan is eligible for discharge under closed school, false certification, or unpaid refund provisions. If only a portion of the loan is discharged, the remaining portion of the loan remains eligible for interest benefits.
- The date the lender receives claim payment on the loan.
- The date the loan is discharged by a bankruptcy court.
- The date the lender determines that the borrower has died or become totally and permanently disabled.
- The date of disbursement for any portion of the loan for which a borrower is found to be ineligible (see section 5.14).
- The date the loan, or any portion of the loan, ceases to be guaranteed or loses its eligibility for reinsurance—regardless of whether the lender has filed a claim with the guarantor.
- The date of disbursement, if a loan is unconsummated. [§682.300(b)(2)]

For loans first disbursed on or after October 1, 1992, a lender may not bill for interest benefits on an unconsummated subsidized Stafford loan. A loan is considered unconsummated if it is disbursed, but the check is not cashed—or, in the case of funds disbursed by EFT or master check, the funds are not released to the borrower from the school's account—within 120 days of the date on which the check was cut or the EFT/master check funds were sent to the school. If a loan is unconsummated, the lender must discontinue its current billing on the loan and refund interest benefits that have already been paid. [§682.300(c)]

# A.2
# Special Allowance

A lender may receive special allowance payments on most FFELP loans. The Department pays special allowance on a loan for any quarter in which the applicable calculation for that type of loan yields a positive number.

Special allowance is not paid on the following:

- Unconsummated loans.
- Nonsubsidized Stafford loans first disbursed on or after October 1, 1981, for periods of enrollment beginning before October 1, 1992.
- Any portion of a Consolidation loan derived from an underlying HEAL loan.

The formulas used to calculate special allowance, which are exhibited on the following pages, are based on the maximum applicable interest rates specified in law for each category of loan. If a lender charges a borrower an interest rate that is less than the statutory maximum rate applicable to that loan, the lender must report the loan at the statutory rate for special allowance purposes.

Variable-rate PLUS or SLS loans first disbursed before July 1, 1994, and PLUS loans first disbursed on or after July 1, 1998, are eligible for special allowance only when the following criteria are met:

- The loan is accruing at the maximum interest rate specified in law for such a loan (also called the cap).
- The interest rate for each July 1 to June 30 period, as calculated prior to applying the interest rate maximum (or cap), exceeds the maximum interest rate for the loan.
  [HEA 438(b)(2)(I)(v); §682.302(b)(2)]

## A.2.A
## Special Allowance Rates

The amount of special allowance that is payable on an eligible loan is determined by multiplying the average daily balance of principal and capitalized interest on the loan by the applicable special allowance rate. Special allowance rates are calculated and published quarterly by the Department. The formulas used to calculate these rates are exhibited on the following pages. The following factors are considered in the calculation of special allowance rates for a loan:

- The average of the bond equivalent rates of the quotes of the 3-month commercial paper (financial) rates in effect for each of the days in the quarter (also called the 3-month commercial paper rate) for Stafford and PLUS loans first disbursed on or after January 1, 2000, and for Consolidation loans made from applications received by lenders on or after January 1, 2000.
- The average bond equivalent rate of the 91-day Treasury bills auctioned during the quarter (also called the T-bill rate) for Stafford and PLUS loans first disbursed prior to January 1, 2000, and for Consolidation loans made from applications received by lenders before January 1, 2000.
- A factor prescribed by law for each category of loans. This factor is added to the applicable T-bill rate or 3-month commercial paper rate for the quarter.
- The applicable statutory interest rate for the loan. This rate is subtracted from the sum of the appropriate factor and the applicable T-bill rate or 3-month commercial paper rate.

If a special allowance rate calculation results in a negative number, special allowance will not be paid for that loan type for that quarter.

The amount of each quarterly special allowance payment will vary according to the type of loan, the date the loan was disbursed, the period of enrollment for which the loan was made, and, in some cases, the number of quarters for which the loan has been outstanding, or the loan's status.

## Special Allowance Formulas — Figure A-1

**FORMULA 1**
(AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 1.74% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- Stafford loans first disbursed on or after January 1, 2000, when such loans are in periods of in-school, grace, or deferment (during all other periods, special allowance is calculated using **Formula 2** below).

**FORMULA 2**
(AVERAGE 3-MONTH COMMERCIAL PAPER + 2.34% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- Stafford loans first disbursed on or after January 1, 2000, except when such loans are in periods of in-school, grace, or deferment (in which case special allowance is calculated using **Formula 1** above).

**FORMULA 3**
(AVERAGE 3-MONTH COMMERCIAL PAPER + 2.64% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- PLUS loans first disbursed on or after January 1, 2000.
- Consolidation loans made from applications received by lenders on or after January 1, 2000.

**FORMULA 4**
(AVERAGE 91-DAY T-BILL + 2.2% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- Stafford loans first disbursed on or after July 1, 1998, but before January 1, 2000, when such loans are in periods of in-school, grace, or deferment (during all other periods, special allowance is calculated using **Formula 5** below).

**FORMULA 5**
(AVERAGE 91-DAY T-BILL + 2.8% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- Stafford loans first disbursed on or after July 1, 1998, but before January 1, 2000, except when such loans are in periods of in-school, grace, or deferment (in which case special allowance is calculated using **Formula 4** above).

**FORMULA 6**
(AVERAGE 91-DAY T-BILL + 2.5% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- Stafford loans first disbursed on or after July 1, 1995, but before July 1, 1998, when such loans are in periods of in-school, grace, or deferment (during all other periods, special allowance is calculated using **Formula 7** on the following page).

**FORMULA 7**
(AVERAGE 91-DAY T-BILL + 3.1% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- Subsidized and unsubsidized Stafford loans first disbursed on or after July 1, 1995, but before July 1, 1998, except when such loans are in periods of in-school, grace, or deferment (in which case special allowance is calculated using **Formula 6** on the previous page).
- Subsidized Stafford loans first disbursed on or after October 1, 1992, but before July 1, 1995.
- Unsubsidized Stafford loans first disbursed on or after October 1, 1992, but before July 1, 1995, for periods of enrollment beginning on or after October 1, 1992.
- PLUS loans first disbursed on or after October 1, 1992, but before January 1, 2000.
- SLS loans first disbursed on or after October 1, 1992.
- Consolidation loans made on or after October 1, 1992, from applications received by lenders before January 1, 2000.

**FORMULA 8**
(AVERAGE 91-DAY T-BILL + 3.25% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- Subsidized Stafford loans first disbursed on or after November 16, 1986, but before October 1, 1992.
- Unsubsidized Stafford loans first disbursed before October 1, 1992, for periods of enrollment beginning on or after October 1, 1992.
- Variable rate PLUS/SLS loans first disbursed before October 1, 1992.
- Fixed rate PLUS/SLS loans first disbursed on or after November 16, 1986, but before July 1, 1987.
- Subsidized Stafford loans and fixed-rate PLUS/SLS loans first disbursed on or after October 17, 1986, but before November 16, 1986, for periods of enrollment beginning on or after November 16, 1986.
- Consolidation loans made on or after November 16, 1986, but before October 1, 1992.

**FORMULA 9**
(AVERAGE 91-DAY T-BILL + 3.5% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- Subsidized Stafford loans and fixed-rate PLUS/SLS loans first disbursed on or after October 17, 1986, but before November 16, 1986, for periods of enrollment beginning before November 16, 1986.
- Subsidized Stafford loans and fixed-rate PLUS loans first disbursed on or after October 1, 1981, but before October 17, 1986.
- Consolidation loans made on or after October 1, 1986, but before November 16, 1986.

**FORMULA 10**
(AVERAGE 91-DAY T-BILL + 3.5% – APPLICABLE INTEREST RATE OF THE LOAN)

This amount should be rounded up to the nearest 1/8 of 1%*, and the result should be divided by 4.

- Subsidized and Nonsubsidized Stafford loans, and fixed-rate PLUS loans, first disbursed before October 1, 1981.

* Decimal equivalents are: 0.125, 0.250, 0.375, 0.500, 0.625, 0.750, 0.875, or the next whole percent.

## Examples of Special Allowance Calculations — Figure A-2

### EXAMPLE 1

A subsidized Stafford loan is first disbursed on or after July 1, 1994, but before July 1, 1995, and is currently accruing interest at 8.25%. Special allowance for this loan is calculated using **Formula 7**.

If the average 91-day T-bill bond equivalent rate for the preceding quarter is 5.79%, the quarterly special allowance rate for the loan is calculated as follows:

$$(5.79\% + 3.10\% - 8.25\%) \div 4 = 0.16\%$$

If the loan has an average daily balance for the quarter of $3,000, applying the above rate yields the following quarterly special allowance amount:

$$0.0016 \times \$3{,}000 = \$4.80$$

### EXAMPLE 2

A Stafford loan is first disbursed to a borrower on or after October 1, 1992, but before July 1, 1994. The borrower has an outstanding loan that was first disbursed at a 9% interest rate on or after January 1, 1981, but before October 1, 1981. The new loan currently accrues interest at 8.92% because it has been converted to an annual variable interest rate as a result of excess interest provisions. Special allowance for the new loan is calculated using **Formula 7** (special allowance for the previous loan is calculated using **Formula 10**).

If the quarterly average 91-day T-bill bond equivalent rate for the preceding quarter is 5.79%, the quarterly special allowance rate for the loan is calculated as follows:

$$(5.79\% + 3.10\% - 8.92\%) \div 4 = -0.0075\%$$

Because the special allowance rate calculation resulted in a negative 0.0075%, special allowance is not paid for this loan for this quarter.

Loans made or purchased with funds obtained by the holder from the proceeds of tax-exempt obligations are eligible for special allowance payment, subject to the following conditions:

- Special allowance is limited to one-half the maximum applicable rate for loans made or purchased with funds obtained from tax-exempt obligations originally issued prior to October 1, 1993. Minimum special allowance rates apply.
  [§682.302(c)(3)(i), (ii), and (iii)]

- Special allowance is paid at the maximum applicable rate for loans made or purchased with funds obtained from tax-exempt obligations that were originally issued on or after October 1, 1993, and loans made or purchased with funds derived from default reimbursement collections, interest, or other income related to eligible loans made or purchased with those tax-exempt funds. Minimum special allowance rates do not apply.
  [§682.302(c)(4)]

A loan that is financed by proceeds of tax-exempt obligations and that is held by or on behalf of an authority is eligible for special allowance only if the authority meets the nondiscrimination requirements of 34 CFR 682.800. If a loan that is held by or on behalf of an authority was made or acquired with the proceeds of a tax-exempt obligation originally issued prior to October 1, 1993, and is refinanced with the proceeds of a taxable obligation, the loan remains subject to the tax-exempt special allowance provisions if the authority retains legal interest in the loan. If the original tax-exempt obligation is retired or defeased or the authority does not retain a legal interest in the loan, special allowance is paid based on the rules applicable to the new funding source.
[HEA 438(e); §682.302(e)]

## A.2.B
## Termination of Special Allowance

The Department's obligation to pay special allowance for an eligible loan ends on the earliest of the following dates, as applicable:

- The date the loan is fully repaid.

- The date the lender receives a claim payment on the loan.

- The date the loan, or any portion of the loan, ceases to be guaranteed or loses its reinsurability—regardless of whether the lender has filed a claim with the guarantor.

- 30 days after the date the lender receives a claim returned solely due to inadequate documentation, unless the claim is resubmitted with all required documentation within 30 days.

- 60 days after the date the borrower defaulted on the loan, unless the lender has filed a claim and all required documentation with the guarantor on or before the 60th day.

- The date the lender receives a claim payment for the loan or the 90th day (plus a 5-day mail time allowance) after the date on which the lender files a claim with the guarantor, whichever is earlier. The lender may be required to readjust special allowance billing if it receives information from the guarantor specifying the date on which the guarantor received the claim. If such information is received, the lender must ensure that special allowance is not billed beyond the 90th day following the date the guarantor received the claim.

- The date of disbursement, for any portion of the loan for which a borrower is found to be ineligible and the borrower repays the special allowance to the lender (see section 5.14).

- For a loan first disbursed prior to October 1, 1992, the date the lender receives a returned, uncashed disbursement check for the loan.

- For a loan first disbursed prior to October 1, 1992, the 120th day after the disbursement date if the disbursement check has not been cashed or the EFT/ master check funds have not been released from the school's account to the borrower by that date.

- For a loan first disbursed on or after October 1, 1992, the date of disbursement (retroactive), if a loan is unconsummated.

For loans first disbursed on or after October 1, 1992, a lender may not bill for special allowance on an unconsummated loan. A loan is considered unconsummated if it is disbursed, but the check is not cashed—or, in the case of funds disbursed by EFT or master check, the funds are not released to the borrower from the school's account—within 120 days of the date on which the check was cut or the EFT/master check funds were sent to the school. If a loan is unconsummated, the lender must discontinue billing on the loan and must refund special allowance payments that have already been received. [§682.302(d)(1)]

## A.3 Interest and Special Allowance Billing

A lender requests payment of interest benefits and special allowance for eligible loans by billing the Department at the end of each calendar quarter. The lender does this by submitting a Lender's Interest and Special Allowance Request and Report (ED Form 799). The lender also must report the status and balance of each FFELP loan held and make any adjustments to submissions covering earlier quarters.

A lender is prohibited from billing for federal interest benefits and special allowance payments on loans that are not eligible for federal reinsurance coverage. It is the lender's responsibility to repay immediately all federal interest benefits and special allowance payments on a loan which is, or was, ineligible to receive payments (see subsection A.1.B and A.2.B). Any required refund should be made as an adjustment to the lender's next quarterly billing (ED Form 799). In some cases, the lender may regain the right to receive interest benefits and special allowance payments on a loan and may resume billing for periods following the date the guarantee on the loan is reinstated. This may occur if the lender loses a guarantee due to a timely claim filing violation or due diligence violations, but then successfully performs cure procedures.

> EXAMPLE
> A lender finds due diligence violations that cause a loan to lose its guarantee effective June 1. If the lender subsequently cures the loan effective August 15, the lender would be responsible for correcting special allowance billings so that no special allowance is billed from June 1 through August 14 (the day before the loan regained eligibility for special allowance). In this case, the lender loses special allowance earnings for 75 days.

A lender's records must provide clear audit trails supporting its interest and special allowance billings. If requested, the lender must verify that the information on the ED Form 799 conforms to the instructions outlined by the Department. Lenders may be assessed a financial penalty by the Department if a review of the lender's ED Form 799 shows that information on the form is either inaccurate or insufficiently documented.
[§682.414(a)(4)(ii)(K); *Self-Instructional Workbook for the ED Form 799*, March 1994 edition]

## A.3.A
## ED Form 799 Submission

It is imperative that a lender submit a complete and accurate ED Form 799. Errors may cause delays in processing and payment authorization. A lender should verify that all information pertaining to its FFELP loan portfolio is both accurate and up-to-date before undertaking the quarterly report.

A lender must have the following information (which is routinely requested during audits) for each loan it lists on an ED Form 799:

- Loan type (subsidized or unsubsidized Stafford, PLUS, SLS, Consolidation, or FISL).
- Disbursement date(s).
- Applicable statutory interest rate.
- Actual interest rate (if less than the applicable statutory rate).
- Loan status (in-school, grace, repayment, authorized deferment, forbearance, delinquent, claim pending) and the dates on which the status began and/or ended.
- Beginning principal balance and adjustments (calculated by determining any differences between the beginning principal balances of loans, by type, since the last quarter).
- Details on any cancellations (effective during the current or prior quarters, but processed in the current quarter).
- Principal amounts of disbursements (gross amounts of disbursements before any deduction of guarantee or origination fees).
- Amount of repayments (all reductions or increases made to the outstanding balances of loans) and the dates on which those payments or payment reversals were received.
- Average daily principal balance (the sum of the principal amounts outstanding each day of the quarter, divided by the number of days in the quarter).
- Documentation of any purchase or sale (the date of the purchase or sale of the loan, the principal amount outstanding on that date, and the name of the institution to which the loan was sold or from which it was purchased).
- Information on Stafford or Consolidation loan subsidies (if any).
- Amount of capitalized interest, including the dates for which the interest was capitalized and the date(s) on which it was capitalized.
- Information on any loss of guarantee (if the guarantee was canceled during the quarter).
- Notations of any cures (if the guarantee was reinstated during the quarter).
- Documentation of purchased claims (if purchased by the guarantor as a claim during the quarter) and the date on which the lender received the claim payment.

## A.3.B
## General Instructions for Completing ED Form 799

A lender must prepare and submit an accurate and complete ED Form 799 to the Department for each quarter. The form must be submitted within 90 days of the quarter's end to be considered timely.

The Department will authorize the payment of any interest benefits or special allowance due within 30 days of receiving an accurate and complete ED Form 799. An ED Form 799 is not considered accurate and complete if any of the following criteria are met:

- The lender requests payments to which it is not entitled.
- The lender includes loans on the form that the Department has instructed the lender, in writing, not to include.
- The report does not contain all information required by the Department or contains conflicting information.
- The lender does not certify and/or submit the form in the manner prescribed by the Department.

If an incomplete form is submitted, it will be returned to the lender unprocessed.

### Completing ED Form 799

The Department sends to each participating lender a quarterly ED Form 799 containing preprinted lender identification information. The form is sent before the end of each calendar quarter (March 31, June 30, September 30, and December 31). If the form does not arrive by the end of the quarter, or arrives damaged, the lender should contact the Federal Student Aid Information Center at (800) 433-3243 for a replacement.

Each part of the ED Form 799 contains instructions on how to assemble and report the information needed for that section. The instructions for each part begin on the back of the preceding pages—except for the instructions for Part I, which begin on the back of the last page of the form.

The following general rules apply with respect to how numbers should be presented on the ED Form 799:

- Monetary amounts listed on the form—except those in Part III, Column F (Interest Amount)—should be rounded to the nearest whole dollar. Amounts should be rounded only when entering the information onto the form. All calculations should be made in dollars and cents.

- Percentage rates must be expressed as decimal numbers. Where required, the lender should report rates with as many as four places after the decimal point.

All report pages—including any continuation pages added by the lender—must be numbered sequentially. If the lender needs additional space to complete any part of the form, it should make a copy of that portion and use it as a continuation page.

A lender may submit a computer-generated report to the Department. The report must be printed on unlined 8½" X 11" paper and must follow the format of the ED Form 799 distributed by the Department. Each column and row must be properly labeled, and the lender identification number (LID) should appear at the top of each page. The instructions that appear on the ED Form 799 printed by the Department need not be duplicated on a computer-generated report. The lender also must ensure that the complete certification statement from Part I of the report is included on the printout. The lender is strongly encouraged to submit a facsimile of the computer report to the Department for approval before submitting the actual computer-generated report for payment.
[DCL 94-L-167]

A lender may contract with a servicer to prepare the form on its behalf. However, the lender remains responsible for all entries made on the ED Form 799 and may be liable for any information in the report that results in the receipt of an overpayment of benefits.
[§682.203(a)]

### Submitting ED Form 799

Completed forms should be sent to the Processing Center at the address on the first page of the ED Form 799. Because the Processing Center uses a post office box number, the lender must send its forms via the U.S. Postal Service (commercial couriers such as Federal Express, Airborne, and United Parcel Service cannot make deliveries to post office boxes). If the lender wants to send its forms by overnight mail, it must use the Express Mail service provided by the U.S. Postal Service (in some cities, overnight delivery may not be available).

### For More Information

Lenders may refer to the *Self-Instructional Workbook for the ED Form 799* and may contact the Department's appropriate Regional Office for further assistance in preparing the form. See appendix D of this manual for contact information.

## A.3.C
## Summary of ED Form 799

The ED Form 799 is divided into six parts. Each part is described in this subsection. General instructions for completing the ED Form 799 are provided in the preceding subsection A.3.B.

### Part I: Identification and Certification

In this part, the lender provides identifying information about itself. An official authorized by the lender to sign the form must endorse the certification statement of Part I in ink; name stamps are not acceptable.

Instructions for completing Part I, as well as general instructions for preparing the form, appear on the back of the last page of the ED Form 799.

### Part II: Loan Origination and Lender Loan Fees

In this part, the lender reports the amount of funds disbursed during the quarter and the amount of loan origination and lender loan fees due to the Department on disbursements of FFELP loans. For more information on origination fees and reporting requirements, see subsection 3.5.A and section 7.9.

The instructions for completing Part II begin on the back of the first page of the ED Form 799.

### Part III: Interest Benefits

In this part, the lender bills the Department for interest benefits due on eligible subsidized Stafford loans, qualifying Consolidation loans, and FISL loans—when such loans are in appropriate statuses (see section A.1). Instructions for Part III begin on the back of the preceding page of the ED Form 799.

### Part IV: Special Allowance

In this part, the lender bills the Department for special allowance payments. The lender may receive special allowance on eligible FFELP loans (see section A.2). The lender must separate loans according to loan type, applicable interest rate, and special allowance category—and provide the sum of average daily balances for each loan within these groupings. The Department will calculate the amount of special allowance due to the lender.

The instructions for Part IV begin on the back of the preceding page of the ED Form 799.

### Part V: Changes in Guaranteed Loan Principal for the Quarter

In this part, the lender reports any increases and decreases in principal amounts for FFELP loans held by the lender during the quarter. This information—together with the information reported in Part VI—is used by the Department to track the balances and relative statuses of each loan type. Part V also provides the lender and the Department a summary of the institution's loan portfolio, which can be used to verify the completeness and accuracy of the information reported on other parts of the form.

The instructions for Part V begin on the back of the preceding page of the ED Form 799.

### Part VI: Guaranteed Loan Portfolio Analysis for End of Quarter

In this part, the lender reports the status of its FFELP loans at the end of the quarter. For Part VI, loans are categorized by applicable status: (1) loans for which the borrower is in school or in a grace period, (2) loans in authorized deferment, or (3) loans in repayment. For loans in repayment, the lender must indicate whether the loan is current or delinquent. If a loan is delinquent, the lender must specify the number of days delinquent or indicate that a claim is pending on the loan, as applicable.

The instructions for Part VI begin on the back of the preceding page of the ED Form 799.

## A.3.D
## ED Form 799 Codes

Lenders report much of the information on the ED Form 799 using codes specific to each loan type, interest rate, and disbursement "class." A lender should ensure that it includes accurate codes and code combinations on each quarterly form it submits. The Department will carefully edit and cross-reference the codes when processing the form.

For a comprehensive list of codes and valid code combinations, see the tables in figure A-3.

## A.3.E Deactivation

A lender may be deactivated from the FFELP if it fails to submit an ED Form 799 for two consecutive quarters, or if it submits a form rejected due to errors or incomplete data and does not subsequently correct the form. A deactivated lender is not eligible for insurance on its loans, and the lender may not bill interest benefits or special allowance for the period during which it is deactivated.

The Department will notify a lender of a pending deactivation. If the lender wishes to continue its FFELP participation, it must notify both the Department and each appropriate guarantor of its intent and the actions it is taking to resolve the outstanding issues. The lender should forward this information within 60 days of the date it is notified of a pending deactivation.

A lender may forestall deactivation—or may have its eligibility to participate in the FFELP reinstated, if it has already been deactivated—by meeting one of the following requirements:

- The lender may pay all of its outstanding origination fees separately from an ED Form 799 submission.
- The lender may work with the Department to correct ED Form 799s and have them reprocessed, if reports were previously submitted but rejected due to erroneous or incomplete data.
- The lender may successfully submit all outstanding ED Form 799s, along with a letter certifying that all fees have been paid to the Department, if reports were not submitted for two or more consecutive quarters.

If a lender is reactivated, it may not retroactively bill interest benefits or special allowance for the period during which it was deactivated (see subsection 3.5.A).
[DCL 94-L-170 and DCL 95-L-180]

## A.4 Consistency between ED Form 799 and NSLDS Data

The Department will use data from the National Student Loan Data System (NSLDS) to monitor the plausibility of data submitted on ED Form 799 reports. A lender should ensure that the FFELP loan data it includes on an ED Form 799 are consistent with the data it regularly reports to the guarantor.

Each guarantor updates the NSLDS on a monthly basis as it obtains new information from lenders on existing loans or on new loans that have been guaranteed. Information is sent on more than 80 separate data elements covering the complete life cycle of each FFELP loan. Included in this loan-level detail are all the data elements contained in the ED Form 799 report.

For more information on lender NSLDS reporting, see subsection 3.5.G. A lender also may refer to the NSLDS Lender Manifest Instructions for more information about lender-related data that must be reported.

## 799 Special Allowance and Interest Rate Reporting for FFELP Loans — Figure A-3

**799 Special Allowance and Interest Rate Reporting For FFELP Loans**

| Loan Type Code | | Special Allowance Factor | | | |
|---|---|---|---|---|---|
| TG[1] | Subsidized Stafford and Subsidized FISL loans | SA | 3.50% round up to 1/8% | SJ | 2.20% |
| TP[5] | PLUS (parent) loans | SB | 3.50% | SK | 2.80% |
| TP[2, 5] | PLUS (student) and ALAS loans | SD | 3.25% | SL | 3.10% |
| TU | Unsubsidized Stafford loans | SE | 3.10% | CA | 1.74% |
| TS[5] | SLS loans | SG | 3.10% | CB | 2.34% |
| TS[3, 5] | PLUS (student) and ALAS loans | SH | 2.50% | CC | 2.64% |
| TC | Consolidation loans | X* | 3.50%, tax exempt[4] | CD | 2.64% |

| Special Allowance Codes - For loans made or purchased with taxable funds or tax-exempt funds originally issued on/after 10-1-1993[4] | |
|---|---|
| SA | All loans first disbursed prior to 10-1-1981. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4, rounded up to the nearest 1/8 percent) |
| SB | All loans first disbursed on/after 10-1-1981 through 10-16-1986 and loans first disbursed on/after 10-17-1986 through 11-15-1986 with a loan period begin date prior to 11-16-1986. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4) |
| SC | All loans first disbursed during sequester periods (1st four quarters after first disbursement). These sequester periods included 3-1-1986 to 9-30-1986 and 10-1-1989 to 12-31-1989. (Formulas no longer in effect) |
| SD | All loans first disbursed on/after 10-17-1986 through 11-15-1986 with a loan period begin date on/after 11-16-1986, and loans first disbursed on/after 11-16-1986 through 9-30-1992. (Formula: Average 90-day Tbill + 3.25% - Interest Rate / 4) |
| SE | All loans first disbursed on/after 10-1-1992 through 6-30-1994, and consolidation loans based on applications received by the lender prior to 11-13-1997. (Formula: Average 90-day Tbill + 3.10% - Interest Rate / 4) |
| SG | All Stafford and PLUS loans first disbursed on/after 7-1-1994 through 6-30-1998 (except Stafford loans first disbursed on/after 7-1-1995 through 6-30-1998 while in school, grace, or deferment status) and consolidation loans based on applications received by the lender on/after 11-13-1997 through 9-30-1998. (Formula: Average 90-day Tbill + 3.10% - Interest Rate / 4) |
| SH | All Stafford loans first disbursed on/after 7-1-1995 through 6-30-1998 while in school, grace, or deferment status, and PLUS loans first disbursed on/after 7-1-1998 through 12-31-1999. (Formula: Average 90-day Tbill + 2.50% - Interest Rate / 4) |
| SJ | All Stafford loans first disbursed on/after 7-1-1998 through 12-31-1999 while in school, grace, or deferment status. (Formula: Average 90-day Tbill + 2.20% - Interest Rate / 4) |
| SK | All Stafford loans first disbursed on/after 7-1-1998 through 12-31-1999 while in a status other than in-school, grace or deferment status. (Formula: Average 90-day Tbill + 2.80% - Interest Rate / 4) |
| SL | Consolidation loans based on applications received by the lender on/after 10-1-1998 through 12-31-1999. (Formula: Average 90-day Tbill + 3.10% - Interest Rate / 4) |
| CA | All Stafford loans first disbursed on/after 1-1-2000 through 6-30-2003 while in school, grace, or deferment status. (Formula: Average 3-month CP + 1.74% - Interest Rate / 4) |
| CB | All Stafford loans first disbursed on/after 1-1-2000 through 6-30-2003 while in a status other than in-school, grace, or deferment status. (Formula: Average 3-month CP + 2.34% - Interest Rate / 4) |
| CC | Consolidation loans based on applications received by the lender on/after 1-1-2000 through 6-30-2003. (Formula: Average 3-month CP + 2.64% - Interest Rate / 4) |
| CD | PLUS loans first disbursed on/after 1-1-2000 through 6-30-2003. (Formula: Average 3-month CP + 2.64% - Interest Rate / 4) |

| Special Allowance Codes - For loans made or purchased with tax exempt funds originally issued prior to 10-1-1993[4] | |
|---|---|
| SA | All loans first disbursed prior to 10-1-1980. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4, rounded up to the nearest 1/8 percent) |
| XA | All loans first disbursed on/after 10-1-1980 through 9-30-1981. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4 / 2, or 9.50% - Interest Rate, whichever is greater) |
| XB | All loans first disbursed on/after 10-1-1981 through 9-30-1992. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4 / 2, or 9.50% - Interest Rate, whichever is greater) |
| XC | All loans first disbursed during sequester periods (1st four quarters after first disbursement). These sequester periods include 3-1-1986 to 9-30-1986 and 10-1-1989 to 12-31-1989. (Formulas no longer in effect) |
| XE | All loans first disbursed on/after 10-1-1992 through 6-30-1994, and consolidation loans based on applications received by the lender prior to 11-13-1997. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4 / 2, or 9.50% - Interest Rate, whichever is greater) |
| XG | All Stafford and PLUS loans first disbursed on/after 7-1-1994 through 6-30-1998 (except Stafford loans while in school, grace, or deferment) and consolidation loans based on applications received by the lender on/after 11-13-1997 through 9-30-1998. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4 / 2, or 9.50% - Interest Rate, whichever is greater) |
| XH | All Stafford loans first disbursed on/after 7-1-1995 through 6-30-1998 while in school, grace, or deferment, and PLUS loans first disbursed on/after 7-1-1998 through 6-30-2003. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4 / 2, or 9.50% - Interest Rate, whichever is greater) |
| XJ | All Stafford loans first disbursed on/after 7-1-1998 through 6-30-2003 while in school, grace, or deferment. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4 / 2, or 9.50% - Interest Rate, whichever is greater) |
| XK | All Stafford loans first disbursed on/after 7-1-1998 through 6-30-2003 while in a status other than in-school, grace or deferment. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4 / 2, or 9.50% - Interest Rate, whichever is greater) |
| XL | Consolidation loans based on applications received by the lender on/after 10-1-1998 through 6-30-2003. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4 / 2, or 9.50% - Interest Rate, whichever is greater) |

| Loan Type and Special Allowance Code Reporting Combinations | | | |
|---|---|---|---|
| TG | SA, SB, SC, SD, SE, SG, SH, SJ, SK, XA, XB, XC, XE, XG, XH, XJ, XK, CA, CB | TU | SE, SG, SH, SJ, SK, XE, XG, XH, XJ, XK, CA, CB |
| TC | SC, SD, SE, SG, SL, XB, XC, XE, XG, XL, CC | TS | SA, SB, SC, SD, SE, XA, XB, XC, XE |
| TP | SA, SB, SC, SD, SE, SH, XA, XB, XC, XE, XG, XH, CD | | |

| Notes | |
|---|---|
| 1 | Stafford Nonsubsidized and FISL Nonsubsidized loans disbursed prior to 10-1-81 are included within TG loan types. |
| 2 | Loans disbursed prior to 10-17-86 and **unable** to distinguish from PLUS (parent) loans. |
| 3 | Loans disbursed prior to 10-17-86 and **able** to distinguish from PLUS (parent) loans. |
| 4 | Loans made or purchased with tax-exempt funds originally issued prior to 10-1-93 receive ½ the regular special allowance rate but not less than 9.5% minus the applicable interest rate. Loans made or purchased with tax-exempt funds originally issued on or after 10-1-93 receive regular special allowance and must be reported using the taxable special allowance codes. |
| 5 | PLUS and SLS loans first disbursed on/after 7-1-1987 but before 6-30-1994, and PLUS loans first disbursed on/after 7-1-1998 but before 6-30-2003 do not receive any special allowance if the annual interest rate calculation does not exceed the applicable maximum interest rate. |

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| Interest Rate Codes | |
|---|---|
| .07 | Stafford loans at a fixed rate of 7% or less |
| .99999 | Consolidation loans based on applications received by the lender on/after 10-1-1998 through 6-30-2003 where the fixed interest rate is a weighted average of the underlying loan interest rates rounded up to the nearest 1/8 of a percent |
| CVAR | PLUS loans and SLS loans made in 1986 and 1987 where the interest rate changes each January 1. |
| VAR | PLUS and SLS loans with first disbursements on or after 7-1-1987, but before 10-1-1992, where the interest rate changes each July 1. |
| EVAR | All FFELP loans that were guaranteed as variable rate loans with first disbursements on or after 10-1-1992 and Consolidation loans based on applications received by the lender between 11-13-1997 and 9-30-1998, inclusive, where the interest rate changes each July 1, and HEAL portions of Consolidation loans. |
| FVAR# | Stafford loans that were originally guaranteed as fixed rate loans, but were converted to a variable rate, where the interest rate now changes each July 1. Includes 8/10% loans except for those that fall under the FVARX category. FVAR# includes FVAR7, FVAR8, FVAR9, FVAR10. |
| FVARX | FFELP Stafford loans with a 8/10% interest rate first disbursed to prior borrowers on or after 7-23-1992 but before 10-1-1992, when such loans reach the 49th month of repayment and beyond. |

| Special Allowance and Interest Rate Code Reporting Combinations | | |
|---|---|---|
| SA, XA | Stafford/PLUS/SLS/ALAS | 7%, 9% |
| SB | Stafford/PLUS/SLS/ALAS | 7%, 8%, 9%, 12%, 14%, CVAR |
| SC | Stafford/PLUS/SLS/ALAS | 7%, 8%, 9%, 12%, 14%, CVAR |
| XB | Stafford/PLUS/SLS/ALAS/Consolidation | 7%, 8%, 9%, 10%, 12%, 14%, CVAR, FVAR7, FVAR8, FVAR9, FVAR10, FVARX, VAR |
| SD | Stafford/PLUS/SLS/ALAS/Consolidation | 7%, 8%, 9%, 10%, 12%, 14%, CVAR, FVAR7, FVAR8, FVAR9, FVAR10, FVARX, VAR |
| SC | Stafford/PLUS/SLS/ALAS/Consolidation | 7%, 8%, 9%, 10%, 12%, 14%, CVAR, FVAR7, FVAR8, FVAR9, FVAR10, VAR |
| SE, XE | Stafford/PLUS/SLS/Consolidation | 7%, 8%, 9%, 10%, FVAR7, FVAR8, FVAR9, FVAR10, EVAR |
| SG, XG | Stafford/PLUS/Consolidation | EVAR |
| SH, XH | Stafford/PLUS | EVAR |
| SJ, SK, XJ, XK | Stafford | EVAR |
| SL, XL | Consolidation | .99999 |
| CA, CB | Stafford | EVAR |
| CC | Consolidation | .99999 |
| CD | PLUS | EVAR |

| Valid Special Allowance, Loan Type, and Interest Rate Code Reporting Combinations | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Subsidized Stafford | | Unsubsidized Stafford | | PLUS | | SLS | | Consolidation | |
| Taxable | Tax-exempt | Taxable | Tax-exempt | Taxable | Tax-exempt | Taxable | Tax-exempt | Taxable | Tax-exempt |
| SA TG .07 | SA TG .07 | SE TU .07 | XE TU .07 | SA TP .09 | XA TP .09 | SA TS .09 | XA TS .09 | SC TC .09 | XC TC .09 |
| SA TG .09 | XA TG .07 | SE TU .08 | XE TU .08 | SB TP .14 | XB TP .14 | SB TS .14 | XB TS .14 | SC TC .10 | XC TC .10 |
| SB TG .07 | XA TG .09 | SE TU .09 | XE TU .09 | SB TP .12 | XB TP .12 | SB TS .12 | XB TS .12 | SC TC .11 | XC TC .11 |
| SB TG .08 | XB TG .07 | SE TU EVAR | XE TU EVAR | SB TP CVAR | XB TP CVAR | SB TS CVAR | XB TS CVAR | SC TC .12 | XC TC .12 |
| SB TG .09 | XB TG .08 | SE TU FVAR7 | XE TU FVAR7 | SC TP .12 | XB TP VAR | SC TS .12 | XB TS VAR | SD TC .09 | XB TC .09 |
| SC TG .07 | XB TG .09 | SE TU FVAR8 | XE TU FVAR8 | SC TP VAR | XC TP .12 | SC TS VAR | XC TS .12 | SD TC .10 | XB TC .10 |
| SC TG .08 | XB TG .10 | SE TU FVAR9 | XE TU FVAR9 | SD TP .12 | XC TP VAR | SD TS .12 | XC TS VAR | SD TC .11 | XB TC .11 |
| SC TG .09 | XB TG FVAR7 | SE TU FVAR10 | XE TU FVAR10 | SD TP CVAR | XE TP EVAR | SD TS VAR | XE TS EVAR | SD TC .12 | XB TC .12 |
| SD TG .07 | XB TG FVAR8 | SG TU EVAR | XG TU EVAR | SD TP VAR | XG TP EVAR | SD TS CVAR | | SE TC .01-.25 | XE TC .01-.25 |
| SD TG .08 | XB TG FVAR9 | SH TU EVAR | XH TU EVAR | SE TP EVAR | XH TP EVAR | SE TS EVAR | | SG TC EVAR | XG TC EVAR |
| SD TG .09 | XB TG FVAR10 | SJ TU EVAR | XJ TU EVAR | SG TP EVAR | | | | SL TC .99999 | XL TC .99999 |
| SD TG .10 | XB TG FVARX | SK TU EVAR | XK TU EVAR | SH TP EVAR | | | | CC TC .99999 | |
| SD TG FVAR7 | XC TG .07 | CA TU EVAR | | CD TP EVAR | | | | | |
| SD TG FVAR8 | XC TG .08 | CB TU EVAR | | | | | | | |
| SD TG FVAR9 | XC TG .09 | | | | | | | | |
| SD TG FVAR10 | XE TG .07 | | | | | | | | |
| SD TG FVARX | XE TG .08 | | | | | | | | |
| SE TG .07 | XE TG .09 | | | | | | | | |
| SE TG .08 | XE TG EVAR | | | | | | | | |
| SE TG .09 | XE TG FVAR7 | | | | | | | | |
| SE TG EVAR | XE TG FVAR8 | | | | | | | | |
| SE TG FVAR7 | XE TG FVAR9 | | | | | | | | |
| SE TG FVAR8 | XE TG FVAR10 | | | | | | | | |
| SE TG FVAR9 | XG TG EVAR | | | | | | | | |
| SE TG FVAR10 | XH TG EVAR | | | | | | | | |
| SG TG EVAR | XJ TG EVAR | | | | | | | | |
| SH TG EVAR | XK TG EVAR | | | | | | | | |
| SJ TG EVAR | | | | | | | | | |
| SK TG EVAR | | | | | | | | | |
| CA TG EVAR | | | | | | | | | |
| CB TG EVAR | | | | | | | | | |

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# B PLUS/SLS Refinancing


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

B.2 Option 2: Refinancing to Secure a Variable Interest Rate ..... 1

B.3 Option 3: Refinancing to Discharge a Previous Loan ..... 2

B.4 Repayment Options on Refinanced Loans ..... 3

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The Higher Education Amendments of 1986 created three options for eligible borrowers to refinance their PLUS or SLS loans:

Option 1: Refinancing to secure a combined payment

Option 2: Refinancing to secure a variable interest rate

Option 3: Refinancing to discharge a previous loan

If a lender does not offer one or more of the refinancing options described in this chapter, it must identify for its eligible PLUS and SLS borrowers another lender that does (to the extent practicable).

▲ Lenders may contact individual guarantors for more information on alternative lenders. See section 1.6 for contact information.

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

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

Under this option, a new promissory note is not required and lenders may not charge borrowers an administrative fee.

The interest rate on the refinanced loan is the weighted average of the rates on the loans being combined. If a borrower wishes to combine both fixed and variable interest rate loans under a single repayment schedule, he or she must first refinance each fixed interest rate loan to secure a variable rate (see section B.2).

A 10-year maximum repayment period is provided for loans refinanced under Option 1. The repayment period for the refinanced loan begins on the repayment start date of the most recently disbursed loan that has been included under the combined repayment schedule.

The lender is strongly encouraged to disclose the following items at the time it notifies the borrower of his or her new repayment terms:

- The total combined principal balance of the refinanced loan.
- The monthly payment amount.
- The number of months in the repayment period.
- The new interest rate.

The lender may develop its own format (such as a letter or statement) for disclosing the preceding information.

The lender is not required to report loans refinanced under Option 1 to the guarantor.

The Department requires that special allowance for PLUS and SLS loans refinanced under Option 1 be billed at the interest rate of each underlying loan. As a result, loans should be reported on the lender's ED Form 799 as though no refinancing had occurred. PLUS and SLS loans refinanced under Option 1 are not considered new loans for purposes of special allowance reporting. [§682.209(d)]

## B.2
## Option 2: Refinancing to Secure a Variable Interest Rate

At a borrower's request, the lender may refinance a fixed interest rate PLUS or SLS loan at a variable interest rate. The variable interest rate is determined annually and is effective from July 1 of one year through June 30 of the following year. The rate is equal to the bond equivalent rate of the 52-week Treasury bills auctioned at the final auction held before June 1 of each year, plus 3.25%—not to exceed 12%.

Refinancing under Option 2 does not extend the 10-year maximum repayment period for the loan being refinanced.

If a borrower also has variable interest rate PLUS or SLS loans, these loans may be combined under Option 1 into a single repayment schedule with a loan refinanced to secure a variable rate under Option 2. The 10-year repayment period for the total combined loan refinanced under Option 1 is calculated from the repayment start date of the most recently disbursed loan that is included. [§682.209(e)(2)(ii)]

A borrower is not charged a guarantee fee for refinancing loans under Option 2. However, the lender may opt to charge a borrower whose PLUS or SLS loans are refinanced under Option 2 an administrative fee of up to $100. Only one such administrative fee may be charged on each refinancing transaction. If the lender charges an administrative fee for refinancing under Option 2, the lender must collect the fee from the borrower up front—the lender cannot capitalize the fee. Also, when advising the borrower of the advantages of refinancing his or her loans under Option 2, the lender must subtract this fee from any cost savings the borrower may realize during the repayment period.

A new promissory note and disclosure statement must be generated for each loan refinanced under Option 2. To assist lenders in meeting this requirement, the guarantor may provide refinancing documents. A lender may use these forms or develop its own, provided the lender's form contains all terms and conditions included on the guarantor's refinancing documents. Lenders need not obtain a new promissory note each year.

▲ Lenders may contact individual guarantors for more information on refinancing documents. See section 1.6 for contact information.

The lender is strongly encouraged to disclose to the borrower, each year during the repayment period, the annual variable interest rate and any changes in repayment terms that result from interest rate changes. The lender may develop its own format for disclosing this information to the borrower. If a borrower's repayment terms must be adjusted due to a change in the variable interest rate of a PLUS or SLS loan, lenders generally have two options:

1. The lender may adjust the borrower's payment amount and leave the total number of payments in the repayment period unchanged.

2. The lender may lengthen or shorten the borrower's repayment period by adjusting the total number of payments and leave the payment amount unchanged.

A lender is not permitted to extend the 10-year repayment period solely to avoid increasing the borrower's installment amount. An increase in the variable interest rate of a PLUS or SLS loan may result in the loan not being fully repaid within the maximum 10-year repayment period (see section B.4).

The lender must report the new interest rate on loans refinanced under Option 2 to the guarantor. Loans refinanced under Option 2 must not be reported as paid in full. For more information on reporting loan changes, see section 3.5.
[§682.209(e) and (g)]

## B.3
## Option 3: Refinancing to Discharge a Previous Loan

If a lender holding a fixed-rate PLUS or SLS loan(s) denies the borrower the option of refinancing his or her eligible PLUS or SLS loan(s) to secure a variable rate, the borrower may apply to another lender for a new loan to discharge the loan held by the original lender. Under this option, the lender making the new loan must send the proceeds of the new loan to the current loan holder to retire the borrower's original debt.

A loan refinanced under Option 3 will be made at the variable interest rate applicable to loans refinanced under Option 2 (see section B.2).

The lender may not charge the borrower an administrative fee for refinancing a loan under Option 3. However, the guarantor may charge the borrower a guarantee fee for each new PLUS or SLS loan guaranteed under Option 3. The borrower may finance a guarantee fee by including it in the amount refinanced. If the borrower chooses to finance a fee, the lender must include the fee in the new loan balance reported to the guarantor.

▲ Lenders may contact individual guarantors for more information on the applicability of guarantee fees for loans refinanced under Option 3. See section 1.6 for contact information.

A form may be available from the guarantor to assist lenders in refinancing PLUS or SLS loans under Option 3.

▲ Lenders may contact individual guarantors for more information on the availability of refinancing forms. See section 1.6 for contact information.

Before refinancing a fixed-rate loan under Option 3, the refinancing lender must obtain a written statement from the holder of the loan certifying that:

- The holder refuses to refinance the fixed-rate loan.
- The fixed-rate loan is eligible for insurance or reinsurance.

The holder of the fixed-rate loan must provide the certification within 10 business days of receiving the refinancing lender's written request for the certification. If the holder is unable to provide this certification, it must provide the refinancing lender and guarantor on the loan with a written explanation of the reasons for its inability to provide the certification. The refinancing lender may rely in good faith on the certification provided by the holder of the fixed-rate loan.
[§682.209(g)(2)]

After any applicable refinancing form has been completed and signed by both the borrower and the refinancing lender, the form is sent to the guarantor. Upon approval, the guarantor will send the refinancing lender a guarantee disclosure. Upon receiving this disclosure from the guarantor, the refinancing lender must pay off the borrower's outstanding PLUS or SLS loan(s) and begin its routine servicing of the borrower's new refinanced loan.

The guarantor will bill the refinancing lender for any guarantee fee on a loan refinanced under Option 3 on the lender's monthly fee billing invoice.

#### Deferment of Refinanced Loan

For purposes of deferment eligibility, a loan refinanced under Option 3 is considered one of the following:

- A PLUS loan, if any of the loans refinanced is a PLUS loan made to a parent.
- An SLS loan, if the refinanced loan does not include a PLUS loan made to a parent.
- A loan to a "new borrower," if all the loans refinanced were first disbursed on or after July 1, 1987, for a period of enrollment beginning on or after that date. [§682.209(f)(5)]

#### Discharging the Original Loan

Within 5 business days of receiving proceeds from a refinancing lender, the holder of a loan must apply the proceeds to discharge the borrower's obligation on the fixed interest rate PLUS or SLS loan being refinanced. The holder also must provide the refinancing lender with either a copy of the borrower's original promissory note evidencing the fixed-rate loan or a written certification that the borrower's obligation has been discharged.
[§682.209(f)(3)]

The holder of a loan being refinanced also must promptly report to the guarantor of the loan that the discharged loan was paid in full as a result of refinancing. For more information on lender reporting, see section 3.5.

## B.4
## Repayment Options on Refinanced Loans

A lender is strongly encouraged to offer the choice of standard, graduated, or income-sensitive repayment schedules for any borrower who refinances loans under the options described in this appendix. For more information on repayment options, see section 9.8 and subsection 9.6.D.

A lender should note that a borrower may be eligible for a 3-year mandatory administrative forbearance in cases where an increase in a variable interest rate causes a borrower to exceed the 10-year repayment period. For more information on mandatory administrative forbearance, see section 10.21.

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# C Guarantor-Specific Information


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

6.19 Guarantee of the Loan ..... 1
14.2 Borrower Eligibility and Underlying Loan Holder Requirements ..... 1

**American Student Assistance (ASA)**

2.1.A Overview ..... 1
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**California Student Aid Commission (CSAC)/EdFund**

3.5.D Reporting Loan Status Changes ..... 1
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# C Guarantor-Specific Information

**The following guarantors have no guarantor-specific exceptions to policies outlined in the *Common Manual*:**

Connecticut Student Loan Foundation (CSLF)
Education Assistance Corporation (EAC) (South Dakota)
Georgia Higher Education Assistance Corporation
Great Lakes Higher Education Guaranty Corporation
Michigan Higher Education Assistance Authority
Montana Guaranteed Student Loan Program (MGSLP)
National Student Loan Program (NSLP)
New Mexico Student Loan Guarantee Corporation (NMSLGC)
North Carolina State Education Assistance Authority
Rhode Island Higher Education Assistance Authority (RIHEAA)
South Carolina Student Loan Corporation
Student Loans of North Dakota (SLND)
Tennessee Student Assistance Corporation (TSAC)
Vermont Student Assistance Corporation (VSAC)

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

### 6.19
### Guarantee of the Loan

A borrower whose loans are guaranteed by AES/PHEAA must obtain all of his/her loans from the same lender. This is referred to as the One Lender Rule. The lender that makes the borrower's first loan is the lender of record. All of a borrower's loans must be obtained from the same lender unless an exception to the One Lender Rule has been authorized. In these cases, the borrower is free to choose a different lender for subsequent loans.

The following are authorized exceptions to the One Lender Rule:

- the lender does not lend to borrowers attending a particular school;
- the lender does not offer a particular type of loan for which the borrower is eligible;
- the borrower has experienced loan servicing problems with the lender of record or the lender's servicing agent; or
- the borrower is a graduate or professional student.

Graduate or professional students may obtain a Stafford loan from a lender different from the lender used for their undergraduate or previous graduate/professional borrowing. This allows such students to borrow from their school, if their school is an approved lender.

### 14.2
### Borrower Eligibility and Underlying Loan Holder Requirements

AES/PHEAA will guarantee a Consolidation loan that includes a defaulted loan only if the borrower makes satisfactory repayment arrangements with the loan holder before applying for the Consolidation loan. For these purposes, satisfactory repayment arrangements are defined as three consecutive, on-time, voluntary, monthly payments. AES/PHEAA requires that the payments satisfy interest accruing on each defaulted loan to be consolidated and result in no negative amortization on the borrower's loans.

## American Student Assistance (ASA)

### 2.1.A
### Overview

ASA has entered into a Voluntary Flexible Agreement with the Department to prevent default and encourage rehabilitation through early and on-going contact with borrowers to provide them with the resources and credit strategies that they need to make informed consumer decisions throughout the life of their loans. This means that there may be unique servicing opportunities for schools and lenders.

### 12.1.D
### Claim File Documentation

In addition to claim file documentation required by this subsection for default, ineligible borrower, death, disability, closed school, unpaid refund, fraud, falsely certified, and bankruptcy claims, ASA requires the holder to submit complete collection, correspondence, and payment histories. ASA also reserves the right to request additional supporting claim documentation as required.

## California Student Aid Commission (CSAC)/ EDFUND

### 3.5.D
### Reporting Loan Status Changes

### 9.1.B
### Lender Reporting of Enrollment Changes

Lenders are not required to report enrollment status changes to EDFUND. If lenders prefer to report enrollment status changes to EDFUND, they may continue to do so.

EDFUND will continue to receive enrollment status updates from the National Student Loan Data System (NSLDS).

### 12.1.D
### Claim File Documentation

In addition to the claim file documentation listed in subsection 12.1.D, the California Student Aid Commission/ EDFUND requires that lenders include complete copies of payment histories in each claim file.

### 12.6.A
### Default Claims

If a lender receives a borrower payment after filing a default claim, but before the claim has been purchased, the lender must determine whether the claim should be recalled. If not recalled, the lender must apply the payment(s) to the borrower's loan balance.

## Colorado Student Loan Program

### 12.1.D
### Claim File Documentation

CSLP encourages lenders to provide a separate assignment of the promissory note and not stamp or type the assignment on the back of the promissory note. CSLP will permit a lender to place the loan assignment on the back of the promissory note with the following understanding. If the lender's action brings into question the validity of the promissory note (for example: either by "bleed through" of the ink or by being placed over critical information, etc.) at any time after the loan is assigned to CSLP, the lender will be required to repurchase the loan at the value of the loan at the time of the determination.

## Educational Credit Management Corporation (ECMC)

### 12.1.A
### Claim Filing Requirements

For claims that are not filed electronically, ECMC will continue to require lenders to file a separate claim form for each loan in a claim package.

### 13.3.A
### Default Claims

ECMC requires all skip tracing to be completed by the date of default. Failure to complete skip tracing will result in the loss of guarantee on the loan.

## Finance Authority of Maine (FAME)

### 14.2
### Borrower Eligibility and Underlying Loan Holder Requirements

The Finance Authority of Maine will not guarantee a Consolidation loan made jointly to a married couple.

## Florida Department of Education, Office of Student Financial Assistance (OSFA)

### 12.1.D
### Claim File Documentation

Indemnification Agreement. If required claim file documents are missing, the lender must have signed an "Indemnification Agreement" and must prepare substitute documentation as defined in the agreement.

Documents. Original documents are required unless an indemnification agreement has been signed to permit substitute documentation.

In addition to claim file documentation required by this subsection for closed school, fraud, false certification, and unpaid refund, OSFA requires the holder to submit complete payment histories.

For all claims submitted, OSFA reserves the right to request additional supporting claim documentation as required.

### 12.4
### Requests for Increase In Claim Payment

OSFA requires the lender to submit a request for an increase in claim payment within 60 days of receiving the claim payment. OSFA has established a $50.00 minimum for increase in claim payment requests.

# Illinois Student Assistance Commission (ISAC)

### 3.3.A
### Approval for Participation

#### One-Lender Rule

In accordance with ISAC Administrative Rules, all of a borrower's outstanding ISAC-guaranteed loans must be made by the same lender provided the lender agrees to make all types of FFELP loans to the borrower for which he/she is eligible. Once the borrower selects a lender for his/her initial ISAC-guaranteed loan, all subsequent loans for that borrower will be guaranteed to the original lender unless:

- the borrower's outstanding loans have been sold to a subsequent lender, any new ISAC loans will be guaranteed to the new lender;
- the lender is declared insolvent, becomes unapproved by ISAC, or has withdrawn from participation in FFELP, the borrower must select a new lender for subsequent loans;
- ISAC is informed that the borrower has provided authorization to have subsequent loans issued by a different lender, ISAC will honor the borrower's request; or
- the borrower's outstanding loan(s) was made by a lender of last resort, the borrower must select a new lender for subsequent loans.

In order to receive a guarantee from ISAC, an educational lender must agree to ISAC's one-lender policy that applies to educational lenders. Also, the lender must be an educational institution at which the borrower is currently enrolled and the borrower must have made a good faith effort to obtain a loan from a commercial lender pursuant to federal regulations (§682.601).

#### One-Holder Rule

In accordance with ISAC Administrative Rules, all of a borrower's outstanding ISAC-guaranteed loans (Federal Stafford, SLS, and PLUS) must be sold by a lender to the same holder. Any subsequent ISAC-guaranteed loan for the borrower must also be sold to the same holder no later than 90 days from the borrower's last date of attendance or 180 days following the last disbursement, whichever occurs later. In the event of untimely notification to the lender of the borrower's change in enrollment status, the subsequent loan must be sold no later than 45 days after the lender became aware of the change in enrollment or in the case of a late disbursement, the subsequent loan must be sold within 45 days following disbursement. Failure to sell the subsequent loan by the applicable deadline shall result in the loss of guarantee. However, a guarantee may be reinstated if the lender initiates the sale of the loan to the appropriate holder within 90 days of identifying the violation.

ISAC's one-holder policy shall not apply if:

- the holder is declared insolvent, has terminated its agreement with ISAC, or has withdrawn from participation in FFELP; or
- the borrower has provided authorization to have subsequent loans sold to a different holder.

### 5.1.A
### General Borrower and Student Eligibility Requirements

According to ISAC Administrative Rules, no applicant shall receive ISAC-administered assistance if the applicant owes a refund for any ISAC-administered gift assistance.

### 14.2
### Borrower Eligibility and Underlying Loan Holder Requirements

ISAC will guarantee Federal Consolidation Loans based on the following policy.

- A defaulted loan(s) may be included for consolidation through ISAC **only** if the underlying defaulted loan(s) is currently held by ISAC and the total balance of **all** loans included at the time of consolidation is $5,000 or greater. Borrowers may **not** consolidate a defaulted Direct Loan or a defaulted loan held by another guarantor through ISAC.
- Other than a Federal Direct Loan, a borrower may not include for consolidation any loan currently held by the U.S. Department of Education (ED) (i.e., subrogated loan).

To access ISAC Administrative Rules, go to www.isac1.org and click on the "Download" link on the right-hand side. The Rules are contained in the list of downloadable files.

## Iowa College Student Aid Commission (ICSAC)

### 14.2
### Borrower Eligibility and Underlying Loan Holder Requirements

Prior to making a federal Consolidation Loan under ICSAC's guarantee, a lender shall ascertain that at least one of the underlying loans to be consolidated was made under Parts B or D of the Higher Education Act of 1965, as amended (the Act) and at least one of the following criteria is met:

- For a loan consolidation which includes an underlying loan or loans made under Part B of the Act, at least one of the underlying loans must be guaranteed by ICSAC;
- For a loan consolidation which does not include a loan or loans made under Part B of the Act, but includes a loan or loans made under Part D of the Act, a lender must ascertain that the borrower:
  - is a resident of the state of Iowa at the time of submitting the application for loan consolidation; or
  - was a resident of the state of Iowa at the time of submitting the application for the Part D loan; or
  - received at least one of the underlying Part D loans while attending an Iowa institution.

ICSAC will not guarantee a Consolidation loan made jointly to a married couple.

## Kentucky Higher Education Assistance Authority (KHEAA)

### 7.7.I
### Effect of Bankruptcy on Loan Disbursement

For loans guaranteed by KHEAA, a lender must cancel any remaining unmade disbursements upon learning that the borrower has initiated a bankruptcy action that results in the lender being required to file a claim with the guarantor. Further, the lender is required to notify the school, the borrower, and KHEAA of the cancellation. The lender must also notify the borrower that he or she may reapply for any remaining eligibility. In cases where the MPN is used as a multi-year note, an MPN executed before the bankruptcy action remains valid for future loans. This includes the new loan that replaces any disbursements cancelled due to the bankruptcy action.

Unlike *Common Manual* policy, KHEAA does not recommend that the lender contact the school to request the return of any funds that are undelivered at the time the lender is notified of the borrower's bankruptcy.

Disbursements made on or after the date a bankruptcy claim is filed—or made more than 30 days after the date the lender receives notice of the bankruptcy action, if that date is earlier—will not be insured unless the lender obtains documentation from the bankruptcy court clearly indicating that the additional disbursements are included in the bankruptcy action. Also, if a lender disburses funds after it files a bankruptcy claim or more than 30 days after its receipt of bankruptcy notification, the lender must ensure that the total amount of disbursed funds is noted on the lender's proof of claim with the bankruptcy court.

In all cases, a lender must adhere to the disbursement schedule provided by the school. If disbursements are scheduled by the school to occur after the claim-filing deadline, the lender must not disburse the funds early in order to include the subsequent disbursements in the claim.

For a bankruptcy action where a claim should not be filed because the loan is not dischargeable (see subsection 12.8.A for requirements), the lender may make any remaining disbursements. If the lender chooses not to make remaining disbursements, the lender must notify the school, the borrower, and KHEAA of the cancellation. The lender also must notify the borrower that he or she may reapply for any remaining eligibility. In cases where the MPN is used as a multi-year note, an MPN executed before the bankruptcy action remains valid for future loans. However, at its discretion, a lender may choose to obtain a new MPN from the borrower.

### 12.8.A
### Bankruptcy

See exception noted for subsection 7.7.I.

## Louisiana Student Financial Assistance Commission (LASFAC)

## Louisiana Office of Student Financial Assistance (LOSFA)

### 14.2
### Borrower Eligibility and Underlying Loan Holder Requirements

LOSFA will guarantee a Consolidation loan for an otherwise eligible borrower:

- who received at least one of the loans to be consolidated while attending a Louisiana school, or
- who is a Louisiana resident, or
- who is attending a Louisiana school and the loans to be consolidated are in a grace period or in repayment, or
- who certifies that he or she has been unable to obtain a Consolidation loan with income sensitive repayment terms satisfactory to him or her from the holders of the borrower's outstanding loans.

LOSFA will not guarantee a Consolidation loan made jointly to a married couple.

*Consolidating Defaulted Title IV Loans*

LOSFA will guarantee a Consolidation loan that includes a defaulted loan only if the borrower makes satisfactory repayment arrangements with the loan holder before applying for the Consolidation loan. For these purposes, satisfactory repayment arrangements are defined as three consecutive, on-time, voluntary, monthly payments, which satisfy the interest accruing on each defaulted loan and do not result in negative amortization.

If a borrower has a defaulted loan which is not to be included in the consolidation, LOSFA will not guarantee the consolidation loan unless the borrower has regained his Title IV eligibility by making six consecutive, on-time, voluntary, reasonable and affordable full monthly payments to the holder of the defaulted loan.

LOSFA does not guarantee consolidation loans for which the lender has agreed to an income sensitive repayment schedule.

## Missouri Student Loan Program

### 7.7.F
### Reissuing Disbursements

When a school determines that a loan disbursement needs to be reissued, the school must request the reissue no later than 120 days after the original loan disbursement.

### 9.1
### Verifying Enrollment

### 9.1.A
### Lender Processing of Enrollment Changes

### 9.1.B
### Lender Reporting of Enrollment Changes

The MSLP reports a borrower's enrollment status update only after verifying the borrower's report with information that the school originated.

A lender may accept a written or electronic report of a new or changed out-of-school date (OSD) received from a source other than the school only when the school is clearly identified as the contributor of the information and a school certification date is provided. A lender may accept an OSD change that the school reports to the lender by telephone if the lender records the school’s identity, the school's certification date, and other information required by *Common Manual* subsection 9.1.A.

### 13.1
### Due Diligence Violations

### 13.5.B
### Cures for Due Diligence Violations and Gaps

To cure the loss of guarantee resulting from due diligence violations or gaps, a lender may accept a full payment received on the borrower’s behalf or other curing instrument. The following list clarifies other curing instruments that the MSLP accepts:

- A signed repayment agreement that complies with §682.209(a)(7), or
- A signed document that constitutes both a forbearance agreement and a repayment agreement that complies with §682.209(a)(7). The repayment agreement language in such a document must include the specifics of the borrower's repayment terms. To avoid claim rejection, lenders and servicers are encouraged to request MSLP review before implementing any

combination repayment and forbearance agreement format that the lender may wish to use as a curing instrument on an MSLP-guaranteed loan.

**14.2**
**Borrower Eligibility and Underlying Loan Holder Requirements**

The MSLP must hold all defaulted loans that are to be included in a Federal Consolidation Loan. The consolidating lender must contact the MSLP on a case-by-case basis for guarantee approval upon application by a borrower who desires an MSLP-guaranteed Federal Consolidation Loan that includes one or more defaulted loans held by the USDE.

## New Hampshire Higher Education Assistance Foundation (NHHEAF)

**12.1.D**
**Claim File Documentation**

**Consolidation LVCs**

With respect to claims filed on consolidation loans, in addition to the claim file documentation listed in subsection 12.1.D, NHHEAF requires that lenders include copies of all Loan Verification Certificates that it received from the holders of the underlying loans.

**12.1.D**
**Claim File Documentation**

**12.8.C**
**Death**

**Original Death Certificates**

With respect to a death claim, in addition to the claim file documentation listed in subsection 12.1.D, NHHEAF requires that lenders include an original death certificate in the claim package.

**12.1.D**
**Claim File Documentation**

**12.8.E**
**Total and Permanent Disability**

**Original TPD Form**

With respect to a Total and Permanent Disability Claim, in addition to the claim file documentation listed in subsection 12.1.D, NHHEAF requires that lenders include an original Total and Permanent Disability Loan Discharge Application and Physician Certification in the claim package.

**13.1.C**
**Violations Due to Missing Payment History**

**13.5.C**
**Cures for Missing Payment History**

**Payment History Required**

NHHEAF requires each loan package to include a payment history and will not recognize a cure for a missing payment history. NHHEAF will consider reconstructed payment histories on a case-by-case basis, contingent on the logic and procedures used to reconstruct the payment history.

## New Jersey Higher Education Student Assistance Authority

**7.7.C**
**Disbursement by Individual Check**

If the lender issues an individual Stafford Loan check, the New Jersey Higher Education Student Assistance Authority requires the check to be made co-payable to the student and the school-unless the school is located in a foreign country, in which case the check is made payable to the student only. Also, if the student is enrolled in a study-abroad program approved for credit by the home school and if the student requests, the loan check may be made payable to the student only. The lender should also indicate the student's social security number, enrollment period for the loan, and the type of loan on each individual loan check.

**12.1.D**
**Claim File Documentation**

The New Jersey Higher Education Student Assistance Authority reserves the right to request additional supporting documentation, e.g. complete and accurate payment histories, forbearance and deferment forms, copies of disbursement checks or other evidence of disbursement, and detailed collection histories, regardless of the lender's claim review status, as deemed appropriate.

**12.8.B**
**Closed School Loan Discharge**

**12.8.D**
**False Certification**

In addition to the documentation requirements of this section, the New Jersey Higher Education Student Assistance Authority requires the lender to submit a complete and accurate payment history, regardless of the lender's claim review status.

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

**3.7.C**
**How the LLR Program Works**

HESC will begin the LLR application process by contacting the student within 60 days.

**5.1.A**
**General Borrower and Student Eligibility Requirements**

If a student is attending a school located outside of New York State, the borrower must be a resident for at least 12 months immediately prior to the beginning of the period for which the loan is intended, unless the school or lender has executed a cooperative agreement with HESC to guarantee loans for students who are not residents.

**7.7.C**
**Disbursement by Individual Check**

For students attending schools in the U.S., HESC requires that Stafford loan checks be made copayable to the student and the school.

**11.4.A**
**Due Diligence Requirements for Loans with Monthly Repayment Obligations**

**11.4.B**
**Due Diligence Requirements for Loans with Repayment Obligations Less Frequent Than Monthly**

Collection Efforts after the Final Demand

HESC will not consider letters sent after the final demand letter in determining lender compliance with the required collection letter due diligence activities. However, HESC will consider telephone calls initiated through the 270th day of delinquency in editing required telephone due diligence activities.

## Northwest Education Loan Association (NELA)

**14.2**
**Borrower Eligibility and Underlying Loan Holder Requirements**

NELA will not guarantee a Consolidation loan made jointly to a married couple.

## Oklahoma Guaranteed Student Loan Program (OGSLP)

**14.2**
**Borrower Eligibility and Underlying Loan Holder Requirements**

OGSLP will not guarantee a Consolidation loan made jointly to a married couple.

## Oregon Student Assistance Commission (OSAC)

### 9.1.B
### Lender Reporting of Enrollment Changes

Lenders are not required to report enrollment status changes to OSAC. OSAC will continue to receive enrollment status updates from the National Student Loan Data System (NSLDS).

## Student Loan Guarantee Foundation of Arkansas (SLGFA)

### 14.2
### Borrower Eligibility and Underlying Loan Holder Requirements

SLGFA will not guarantee a Consolidation loan made jointly to a married couple.

## Texas Guaranteed (TG)

### 11.5.A
### Default Aversion Assistance Request (DAAR)

Lenders must file requests for default aversion assistance between the 60th and 70th day of the borrower's delinquency, for loans that become delinquent beginning on or after July 1, 2001. An additional 5 days is allotted for mailing time. Requests received after the 75th day of the borrower's delinquency will be subject to an interest penalty if a claim is later filed. The new time frame is a provision of TG's Voluntary Flexible Agreement with the U.S. Department of Education.

TG's resubmission deadline for rejected requests remains at the 150th day of delinquency (with an additional 5 days allotted for mailing time), provided the original request was received by the 75th day.

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

### 5.2.E
### Prior Default

See exception noted for section 14.2.

### 7.7.I
### Effect of Bankruptcy on Loan Disbursement

*Bankruptcy Action That Requires Claim Filing:*

For loans guaranteed by USA Funds, a lender must cancel any remaining unmade disbursements upon learning that the borrower has initiated a bankruptcy action that results in the lender being required to file a claim with the guarantor. Further, the lender is required to notify the school, the borrower, and USA Funds of the cancellation. The lender must also notify the borrower that he or she may reapply for any remaining eligibility. In cases where the MPN is used as a multi-year note, an MPN executed before the bankruptcy action remains valid for future loans. This includes the new loan that replaces any disbursements cancelled due to the bankruptcy action. However, the lender may, at its discretion, choose to obtain a new MPN from the borrower.

Unlike *Common Manual* policy, USA Funds does not recommend that the lender contact the school to request the return of any funds that are undelivered at the time the lender is notified of the borrower's bankruptcy.

Disbursements made on or after the date a bankruptcy claim is filed—or made more than 30 days after the date the lender receives notice of the bankruptcy action, if that date is earlier—will not be insured unless the lender obtains documentation from the bankruptcy court clearly indicating that the additional disbursements are included in the bankruptcy action. Also, if a lender disburses funds after it files a bankruptcy claim or more than 30 days after its receipt of bankruptcy notification, the lender must ensure that the total amount of disbursed funds is noted on the lender's proof of claim with the bankruptcy court.

In all cases, a lender must adhere to the disbursement schedule provided by the school. If disbursements are scheduled by the school to occur after the claim-filing deadline, the lender must not disburse the funds early in order to include the subsequent disbursements in the claim.

*Bankruptcy Action That Does Not Require Claim Filing*

For a bankruptcy action where a claim should not be filed because the loan is not dischargeable (see subsection 12.8.A for requirements), the lender may make any remaining disbursements. If the lender chooses not to make remaining disbursements, the lender must notify the school, the borrower, and USA Funds of the cancellation. The lender also must notify the borrower that he or she may reapply for any remaining eligibility. In cases where the MPN is used as a multi-year note, an MPN executed before the bankruptcy action remains valid for future loans. However, at its discretion, a lender may choose to obtain a new MPN from the borrower.

### 11.3.A
### Bankruptcy Petition Filing

As a result of previous bankruptcy court rulings, a loan holder that fails to suspend collection activities after receiving notification of a bankruptcy filing from a borrower may incur liability through contempt charges from bankruptcy courts for violating the automatic stay provisions of bankruptcy law, as authorized in 11 U.S.C. §362. To minimize such liability, USA Funds will allow loan holders to suspend collection activities in response to any of the following types of notification that a borrower has filed bankruptcy:

- A telephone call or letter from the borrower.
- A telephone call or letter from the borrower's attorney.

If the loan holder suspends collection activities upon receiving notification from the borrower, the loan holder must immediately begin actively pursuing confirmation by the bankruptcy court that the borrower has filed bankruptcy. The loan holder must retain documentation of its efforts to ascertain whether the borrower filed bankruptcy, and must note the reason collection activities were suspended in the loan file.

Although notification of a bankruptcy filing from a borrower may be considered sufficient for suspending collection activities, a bankruptcy claim may be filed on a loan only after notification from the borrower's attorney or bankruptcy court confirmation of the borrower's filing is obtained. The timely filing deadline will be measured from the date the lender receives proof of bankruptcy filing from the attorney or the bankruptcy court (rather than the date the original unofficial notification is received).

If the loan holder is unable to obtain court confirmation of the bankruptcy filing within a reasonable period of time (preferably within 45 days), it must resume servicing on the loan at the point of delinquency, if any, that existed at the time the collection activities were suspended. A lender may capitalize the interest that accrues during the period when collection activities were suspended only if it obtains written authorization from the borrower.

## Chapter 12

USA Funds implemented the Common Claim Initiative (CCI) and the policies related to the CCI in October, 1999, for loan holders using USA Funds' Request for Claim Reimbursement form (non-electronic claim filings).

In addition, USA Funds established September 30, 2002, as the date it will be ready to trade claim-related records under the electronic CAM CCI. This is commonly referred to as the "G-date". All trading partners using or wishing to use CCI electronic or web-enabled claim filing must contact USA Funds' guarantor servicer to schedule testing prior to converting to the CCI format.

Trading partners that continue to use paper claim forms were required to move to the CCI paper format as of July 1, 2003 after testing with USA Funds' guarantor servicer. Trading partners still not using the CCI format must contact USA Funds' guarantor servicer.

### 12.8.A
### Bankruptcy

See exception noted for subsection 7.7.I.

### 14.2
### Borrower Eligibility and Underlying Loan Holder Requirements

USA Funds will not guarantee a Consolidation loan made jointly to a married couple.

*Consolidation for Borrowers with Defaulted Loans*
USA Funds will guarantee a Consolidation loan that includes a defaulted loan only if the borrower makes satisfactory repayment arrangements with the loan holder before applying for the Consolidation loan. For these purposes, satisfactory repayment arrangements are defined as three consecutive, on-time, voluntary, monthly payments. Furthermore, USA Funds requires that the payments satisfy interest accruing on each defaulted loan to be consolidated.

# Utah Higher Education Assistance Authority (UHEAA)

### 14.2
### Borrower Eligibility and Underlying Loan Holder Requirements

UHEAA will not guarantee a Consolidation loan made jointly to a married couple.

# D U.S. Department of Education Contact Information


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# D.1
# Schools Channel

## Schools Channel — Figure D-1

| | | | |
|---|---|---|---|
| REGION I | Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont | (617) 223-9338 | U.S. Department of Education<br>540 McCormack Courthouse<br>Boston, MA 02109 |
| REGION II | New Jersey, New York, Puerto Rico, Virgin Islands | (212) 264-4002 | U.S. Department of Education<br>75 Park Pl. 12th floor<br>New York, NY 10007 |
| REGION III | Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, West Virginia | (215) 656-6442 | U.S. Department of Education<br>The Wanamaker Building<br>100 Penn Square East, Suite 505<br>Philadelphia, PA 19107 |
| REGION IV | Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee | (404) 562-6315 | U.S. Department of Education<br>61 Forsyth Street, SW, Room Suite 19T40<br>Atlanta, GA 30303 |
| REGION V | Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin | (312) 886-8767 | U.S. Department of Education<br>111 North Canal Street, Suite 1094<br>Chicago, IL 60606 |
| REGION VI | Arkansas, Louisiana, New Mexico, Oklahoma, Texas | (214) 880-3044 | U.S. Department of Education<br>1999 Bryan Street, Suite 2700<br>Dallas, TX 75202 |
| REGION VII | Iowa, Kansas, Missouri, Nebraska | (816) 268-0410 | U.S. Department of Education<br>8930 Ward Parkway, Suite 2002<br>Kansas City, MO 64114 |
| REGION VIII | Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming | (303) 844-3677 | U.S. Department of Education<br>Regional Office, Federal Bldg.<br>1244 Speer Blvd., Suite 310<br>Denver, CO 80204 |
| REGION IX | Arizona, California, Hawaii, Nevada, American Samoa, Guam, Northern Mariana Islands, Marshall Islands, Palau, State of Micronesia | (415) 556-4295 | U.S. Department of Education<br>50 United Nations Plaza, Room 205<br>San Francisco, CA 94102 |
| REGION X | Alaska, Idaho, Oregon, Washington | (206) 615-2594 | U.S. Department of Education<br>Jackson Federal Building<br>915 2nd Avenue, Room 3362<br>Seattle, WA 98174 |

Information taken from http://fsa4schools.ed.gov/help/contacts.htm#Case_Management_Teams.

## D.2
## Financial Partners Channel

**Financial Partners Channel** **Figure D-2**

| | | | |
|---|---|---|---|
| Eastern Region | Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont, Virgin Islands, Virginia, West Virginia | (212) 264-8143 | U. S. Department of Education<br>Partner Services<br>75 Park Pl., 12th floor<br>New York, NY 10007 |
| Northern Region | Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin | (312) 886-8747 | U. S. Department of Education<br>Partner Services<br>111 North Canal Street<br>Chicago, IL 60606 |
| Southern Region | Alabama, Arkansas, Florida, Georgia, Iowa, Kansas, Kentucky, Louisiana, Mississippi, Missouri, Nebraska, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, Texas | (214) 880-3040 | U. S. Department of Education<br>Partner Services<br>1999 Bryan Street, Suite 2720<br>Dallas, TX 75201 |
| Western Region | Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming, American Samoa, Northern Marianas, Micronesia, Guam, Palau | (415) 556-4100 | U. S. Department of Education<br>Partner Services<br>50 United Nations Plaza, Room 524<br>San Francisco, CA 94102 |

Information taken from www.fp.ed.gov/PORTALSWebApp/fp/contacts.jsp.

## D.3
## Federal Student Aid Information Center

Federal Student Aid Information Center
P.O. Box 4129
Iowa City, IA 52243

Program participants may call (800) 4-FED-AID to obtain:

- General borrower assistance
- Duplicate Student Aid Reports (SARs)
- Application status information
- Dear Colleague Letters/Dear Partner Letters
- Compilations of student aid regulations
- Specific regulations

The Federal Student Aid Students Portal web site is located at www.studentaid.ed.gov. The Schools Portal web site is located at www.fsa4schools.ed.gov.

## D.4
## Financial Partners Channel: Financial Management Division

Program participants may call (202) 377-3324 to obtain:

- T-bill rates for the current quarter
- T-bill rates for the most recent four quarters
- Lender Bulletin copies
- Blank ED Form 799s
- ED Form 799 Explanation Manual
- Current PLUS and SLS loan variable interest rates
- Current Stafford loan variable interest rates
- Assistance from a FFELP specialist

The Financial Partners web site is located at www.fp.ed.gov.

## D.5
## National Student Loan Data System (NSLDS) Customer Service Center

Program participants may call (800) 999-8219 to obtain information relating to the NSLDS Enrollment Reporting process.

## D.6
## Default Management Division

Questions about cohort default rate appeals and general cohort default rate issues should be directed to the Default Management Division at (202) 377-4258 or by e-mail at *fsa.schools.default.management@ed.gov.*

Written requests can be sent to:

*Courier Delivery*

U.S. Department of Education
Default Management
SFA Union Center Plaza
830 First Street, NE
Washington, DC 20002

*U.S. Postal Service Delivery*

U.S. Department of Education
Default Management
SFA Union Center Plaza 084F
400 Maryland Avenue, SW
Washington, DC 20202-5353

## D.7
## FSA Ombudsman

Borrowers of FFELP, FDLP, and Perkins loans may call the Federal Student Aid (FSA) Ombudsman to informally resolve loan disputes and problems. The Ombudsman Customer Service Line is 877-557-2575. The FSA Ombudsman web site is located at www.fsahelp.ed.gov/ombudsman/index.html.

*U.S. Postal Service Delivery & All Other Deliveries (express mail, courier, etc.)*

U.S. Department of Education
Attn: FSA Ombudsman
830 First Street, N.E.
Fourth Floor
Washington, DC 20202-5144

### Disability Discharge Operating Unit

Borrowers who have applied for a total and permanent disability discharge and whose loans have been assigned to the Department of Education during the 3-year conditional period may need to check on the status of their loans. These borrowers may call the Disability Discharge Operating Unit at (888) 869-4169 or (888) 636-6401 (TDD line for the hearing impaired).

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# E Guarantor Bulletins

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# F FFELP-Related References

The list of the common forms that are used in the FFELP (that previously existed in appendix F) has been moved to subsection 2.3.C (Common Forms).

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# G Glossary

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## A

**Ability-to-Benefit: (ATB)** Basis on which a student without a high school diploma, a recognized equivalent, or a General Education Development (GED) Certificate may qualify for federal student financial assistance. The Department maintains a list of approved tests for measuring a student's ability to benefit from the educational program the student seeks. The test must be administered before the school admits the student. See subsection 5.9.

**Academic Period:** A measured period of enrollment (e.g., a semester, trimester, quarter, or clock hours).

**Academic Year:** For the purposes of Title IV aid, a period that begins on the first day of classes and ends on the last day of classes or examinations and that consists of at least 30 weeks of instructional time during which an undergraduate, full-time student is expected to complete either of the following:

- At least 24 semester or trimester hours, or 36 quarter hours in an educational program that measures program length in credit hours.
- At least 900 clock hours in an educational program that measures program length in clock hours.

The Department may, at its option, reduce the minimum number of weeks in an academic year.

**Accrediting Agency:** An agency that sets educational standards for schools, evaluates schools, and certifies that schools have met these standards. A "nationally recognized accrediting agency" is one that the U.S. Department of Education has recognized to accredit or preaccredit a particular category of school or educational program according to 34 CFR Parts 602 and 603. The agency grants accreditation status to schools.

The Department publishes a list of nationally recognized accrediting agencies that the Department has determined to be reliable authorities as to the quality of education or training offered. If the Department determines that there is no nationally recognized accrediting agency qualified to accredit schools in a particular category, the Secretary of Education shall appoint an advisory committee, composed of persons specially qualified to evaluate training provided by schools in such category, to prescribe the standards a school must meet in order to participate in Title IV programs and to determine whether an individual school meets those standards.

**Accredited Institution:** Any school that meets standards established by a nationally recognized accrediting agency, and for which that agency has provided documented acknowledgment of the school's compliance. (See also Preaccredited School.)

**Act, the:** The Higher Education Act of 1965, as amended. Title IV, Part B of the Act addresses FFELP loans.

**Actual Interest Rate:** The annual interest rate a lender charges on a loan, which may be equal to or less than the "applicable"—or statutory—interest rate on that loan.

**Additional Unsubsidized Stafford Loan:** The additional amount of a student's eligibility for unsubsidized Federal Stafford loans. This amount is available only to independent undergraduate students, graduate/professional students, and dependent undergraduate students whose parents are unable to obtain a PLUS loan. See section 6.11 for more information.

**Administrative Forbearance:** A temporary suspension of, a reduction of, or an extension of time for making principal and/or interest payments on a Federal Stafford, SLS, PLUS, or Consolidation loan that is granted by the holder or lender, upon notice to the borrower or endorser, and that does not require a written request from the borrower or an agreement signed by the borrower before the forbearance is granted. See chapter 10.

**Administrative Wage Garnishment:** Process by which a guarantor, under federal law, may intercept a portion of the wages of a borrower with a defaulted FFELP loan.

**Aggregate Loan Limit:** The borrower's maximum allowable unpaid principal amount throughout the student's academic career. Principal outstanding is calculated by adding the total outstanding amount guaranteed, after subtracting any refunds, payments to comply with the requirements for the return of Title IV funds, prepayments, payments, cancellations, funds discharged, or any other reductions to the principal. Capitalized interest or any collection costs that may have been added to the principal balance are not included in the borrower's aggregate loan limit. See subsection 6.11.B.

**Agreement:** Any written contract, agreement, or letter of understanding between the guarantor and another entity that specifies the rights and duties of each party with respect to participation in the guarantor's programs and/or utilization of the guarantor's services.

**ALAS:** See **Auxiliary Loans to Assist Students**

**AmeriCorps:** A national and community service program created by the National and Community Service Trust Act of 1993 and administered by the Corporation for National Service. For each year of full-time service in the program, participants will receive education awards to help finance their postsecondary education or pay back their student loans.

**Annual Loan Limit:** The maximum loan amount a student may borrow for each academic year of study under the Federal Stafford Loan Program.

**Anticipated Completion (Graduation) Date:** The date on which a student is expected to complete an academic program. This date is provided by a school official when certifying the borrower's loan, and in subsequent enrollment status updates.

**Application:** The form the borrower uses to apply for a Stafford, PLUS, or Consolidation loan.

**Applicable Interest Rate:** The maximum annual interest rate (under the Higher Education Act) that a lender may charge on a loan. Sometimes referred to as the Statutory Interest Rate. Past and present applicable interest rates for FFELP loans are included in section 7.4, and appendix A.

**Assignment:** Language placed on or attached to the promissory note indicating a change or transfer of loan ownership.

**Assignment of a Loan:** Any change in the ownership interest of a loan, including a pledge of such an ownership interest as security.

**ATB:** See Ability-to-Benefit

**Authority:** Any private nonprofit or public entity that may issue tax-exempt obligations to obtain funds to be used for the making or purchasing of FFELP loans. "Authority" also includes any agency, including a state postsecondary institution or any other instrumentality of a state or local government unit, regardless of the designation or primary purpose of that agency, that may issue tax-exempt obligations, any party authorized to issue those obligations on behalf of a governmental agency, and any nonprofit organization authorized by law to issue tax-exempt obligations.

**Auxiliary Loans to Assist Students: (ALAS)** A previous name for what became the SLS loan. The Omnibus Reconciliation Act of 1981 extended the Parent Loans for Undergraduate Students (PLUS) program to include loans for independent undergraduate students and graduate and professional students. These loans were called Auxiliary Loans to Assist Students or ALAS. The Higher Education Amendments of 1986 repealed the ALAS program and authorized two separate loan programs in its place—Supplemental Loans for Students, or SLS loans, for graduate students, professional students, and independent undergraduates, and PLUS loans for parents of dependent students.

**Award Year:** The period between July 1 of a given calendar year and June 30 of the following calendar year.

## B

**Bankruptcy:** Judicial action to stay the normal collection of debts against the petitioner, and cause those debts to be satisfied at the direction of the court. Bankruptcies are classified by "chapters," which refer to parts of a larger volume—the U.S. Bankruptcy Act. Types of bankruptcies include:

- **Chapter 7**. This is the most common form of bankruptcy, often referred to as "liquidation." In a Chapter 7 bankruptcy, the eligible assets of the borrower are liquidated and distributed among the creditors by a trustee, with preference given to secured creditors. This type of bankruptcy is frequently used by borrowers who are unemployed or have few or no assets.

- **Chapter 11**. A bankruptcy in which the borrower's debts are reorganized. This type of bankruptcy is seldom used by student borrowers and is most often used by financially troubled businesses.

- **Chapter 12**. Chapter 12 bankruptcy, which is similar to a Chapter 13 bankruptcy, applies only to certain farms and family farm operations with specific debt ceilings.

- **Chapter 13**. This is commonly referred to as the "wage earner" plan. A Chapter 13 bankruptcy allows individuals with regular incomes to satisfy their debts through a court-directed payment plan. Usually, the Chapter 13 debtor(s) has significant debts, but sufficient income to eventually pay the debts.

**Base Stafford Loan Amount:** The base amount of a student's eligibility for a subsidized and/or unsubsidized Federal Stafford loan(s). The base amount equals the loan limit applicable to a dependent undergraduate student. See subsection 6.11.A for more information and examples.

**Base Year:** For need analysis purposes, the calendar year preceding the award year.

**BBAY:** See Borrower-Based Academic Year

**Blanket Endorsement:** A separate form indicating the transfer of contract rights and ownership of a group of loans. If a blanket endorsement is used to indicate ownership change, a copy of the endorsement must be placed in the borrower file of each loan purchased by the lender or secondary market.

**Borrower:** An individual to whom a FFELP loan is made. See chapters 5 and 14 for more information about borrower eligibility requirements and types and amounts of FFELP loans.

**Borrower-Based Academic Year: (BBAY)** An academic year that is individualized per borrower and generally "floats" with the borrower's attendance and progress. For borrowers enrolled in clock-hour and non-term-based credit-hour programs of study ~~at schools that are not term-based~~, the academic year is always a BBAY. A student's BBAY must begin with a term the student actually attends. The BBAY must meet the statutory requirements of an academic year as defined by the Department. For ~~further discussion~~ additional information, see section 6.1 and the *Federal Student Aid Handbook*, Direct Loan and FFEL Programs Reference.[1]

**Borrower-Specific Deferment:** Refers to the federal requirement that eligibility for a deferment be applied to all of a borrower's loans, rather than to each separate loan. For example, a borrower who has used the maximum 24 months of internship deferment is not entitled to an additional internship deferment.

**Branch Campus:** A permanent location of a school that is geographically apart and independent of the main campus; that offers courses leading to a degree, certificate, or other recognized educational credential; that has its own faculty and administration or supervision; and that has its own budgetary and hiring authority. A branch campus is one type of "additional location" at which schools may offer instruction to students. A school must establish eligibility for each of its locations. See subsections 4.1.A and 4.1.C.

1. Policy 719 (Batch 108), approved November 20, 2003

## C

**Campus-Based Programs:** The Federal Perkins Loan, Federal Work-Study, and Federal Supplemental Educational Opportunity Grant programs. These programs are administered by a school's financial aid office. A student's financial aid package may contain aid from one or more of these programs.

**Cancellation (of a Guarantee):** The revocation of a loan guarantee, which occurs if any of the following conditions exist:

- No loan proceeds were disbursed or delivered to the borrower.
- The lender check(s) was never cashed.
- None of the loan proceeds were negotiated within 120 days of the date on which they were disbursed.
- EFT and master check loan proceeds in the school's account are not delivered to the borrower within 120 days after being transferred to the account.
- The loan is repaid in full within 120 days of final disbursement.

The guarantee is not lost on the remainder of the loan if one disbursement is canceled.

**Capitalization:** An increase in the principal balance of a Stafford, SLS, PLUS, or Federal Consolidation loan that occurs when a lender adds the interest accrued on the loan to the outstanding principal balance.

**Capitalized Interest:** Accrued interest added to the borrower's outstanding principal. Subsequent interest accrues on the new total principal balance, which includes any capitalized interest.

**Certification:** The act of attesting that something is true or meets a certain standard. For example, the school certifies the borrower's eligibility for a loan and, if applicable, interest benefits. The borrower completes an application, promissory note, or deferment form, thereby certifying that certain eligibility criteria have been met.

**CFR:** See Code of Federal Regulations

**Change of Control:** An occurrence that signifies that a different person, partnership, or corporation has obtained authority to control the actions of a school. For example, a change of control can occur when stock is transferred to the parent corporation; when schools merge or divide; when a company is retained to manage a school; or when a school transfers assets or liabilities to the parent corporation.

**Check:** A draft (drawn on a financial institution) that is payable on demand and that requires the personal endorsement or other written approval of the borrower to be cashed.

**Citizen/Eligible Noncitizen:** An eligibility requirement that must be met by Federal Stafford, PLUS, and SLS loan borrowers and recipients. See subsection 5.2.A.

**Claim:** ~~A request that~~ The process by which the lender (or lender's servicer) ~~files with~~ requests reimbursement from the guarantor for ~~reimbursement of~~ its losses on a Federal Stafford, SLS, PLUS, or Consolidation loan due to the borrower's ~~death, disability,~~ default~~,~~ or ~~bankruptcy; school closure; or false certification of the borrower's~~ eligibility for loan discharge or forgiveness.[1]

**Clock Hour:** A time period consisting of one of the following:

- 50–60 minutes of class, lecture, or recitation in a 60-minute period.
- 50–60 minutes of faculty-supervised laboratory, shop training, or internship in a 60-minute period.
- 60 minutes of preparation in a correspondence course.

**COA:** See Cost of Attendance

**Code of Federal Regulations: (CFR)** The collection of federal regulations promulgated by the U.S. government. The Department's regulations are codified in Volume 34.

**Cohort Default Rate:** The percentage of Stafford and SLS loan borrowers who default before the end of the fiscal year following the fiscal year in which they entered repayment on their loans. The Department calculates this rate annually to determine the default experience of students who attended a particular school during a particular period of time. Unless otherwise noted, the cohort default rate pertains to the FFELP cohort default rate or the dual-program cohort default rate. See chapter 15 of this manual for a discussion of cohort default rates and the process for challenges, adjustments, and appeals.

**Collection ~~Charges~~ Costs:** Costs incurred in the collection of the loan by the ~~lender or its agents~~ loan holder ~~in collecting overdue payments~~ and charged to the borrower. These ~~charges~~ costs may include, but are not limited to, attorney's fees, court costs, and telegrams; they may not include routine costs associated with preparing letters or notices or making telephone calls to the borrower.[2]

**Comaker:** One of two joint PLUS or Federal Consolidation loan borrowers, who are each held equally liable for the loan's repayment. Before the introduction of the common Stafford loan application/promissory note, some lenders may have required comakers on old subsidized Stafford loans.

**Commercial Paper Rate:** Commercial paper includes short-term, unsecured promissory notes issued primarily by large, well-known corporations and finance companies. The average of the bond equivalent rates of the quotes of the 3-month commercial paper (financial) rates in effect for each of the days in the quarter is a factor in determining the amount of special allowance paid to a lender by the Department for eligible Stafford and PLUS loans first disbursed on or after January 1, 2000, and eligible Consolidation loans made from applications received by lenders on or after January 1, 2000. See section A.2 and subsection A.2.A.

**Commissioned Salesperson:** A person who receives compensation related to, or calculated on the basis of, student applications for enrollment, actual student enrollments, or student acceptances for enrollment.

**Common Application:** A standardized application and promissory note developed by FFELP participants and approved by the Department. Common applications are currently available for Federal PLUS and Federal Consolidation loans. Common applications are periodically revised and approved to reflect major changes in FFELP regulations. Prior to July 1, 2000, a common application was also used to apply for a Federal Stafford loan. To obtain a Federal Stafford loan for any period of enrollment beginning on or after July 1, 2000, and for any Stafford loan certified by the school on or after July 1, 2000, regardless of the loan period begin date, the borrower must complete a Free Application for Federal Student Aid (FAFSA) and a Master Promissory Note (MPN).

1. Policy 697 (Batch 105), approved August 21, 2003

2. Policy 715 (Batch 108), approved November 20, 2003

**Confirmation (as it relates to the Stafford MPN):** A process by which the school, lender, or guarantor (on behalf of the school or lender) advises the borrower of the proposed loan types and amounts. The borrower must take action to confirm the loan type or request a specific loan amount. A school, lender, or guarantor (on behalf of the school or lender) may establish confirmation for the entire loan or may request that the borrower confirm each disbursement of the loan.

**Consummated Loan:** A loan for which a disbursement check has been negotiated or EFT or master check funds have been delivered to the borrower. For example, the loan would be considered consummated if the borrower had cashed the check, if an individual check, or the school had applied the proceeds to the student's account, if included in a master check or EFT transmission before the school returned the proceeds to the lender. See Unconsummated Loan.

**Correspondence Study:** A course of study in which the school provides instructional materials, including examination on those materials, to students who are not physically attending classes at the school. Instruction may be provided, in whole or in part, by video technologies. If the school offers 50% or more of its total courses by telecommunications, or by a combination of telecommunications and correspondence courses, the telecommunications courses offered by that school are considered "correspondence courses." A home-study course for which instruction is provided by video cassettes or discs is also considered a correspondence course during any award year unless the school provides instruction via the same media, during the same award year, to its on-campus students. If a course is a combination of correspondence work and residential training, the entire course is considered correspondence study. See subsection 4.1.D and section 5.11 for more information on correspondence study.

**Cosigner:** A signer of a promissory note who is secondarily liable for a loan obligation. This term is no longer used in federal regulations. See also Endorser.

**Cost of Attendance: (COA)** An estimate of the student's educational expenses for a period of enrollment. See section 6.5.

**Cost of Education:** See Cost of Attendance

**Cost-Less-Aid:** A figure calculated by deducting all financial assistance the student has been or will be awarded for the loan period from the cost of attendance for the same period of enrollment.

**Cumulative Loan Limit:** See Aggregate Loan Limit

**Cure:** Reinstatement of a loan's guarantee upon completion of a prescribed series of loan collection activities; also the process by which the loan's guarantee is reinstated.

**Curing Instrument:** Documentation the lender must obtain and retain to substantiate a cure. Examples of a curing instrument include, but are not limited to, a signed repayment agreement, evidence of one full payment received from or on behalf of the borrower, or documentation of the activities performed in an Intensive Collection Activities (ICA) cure.

## D

**DAA:** See Default Aversion Assistance

**DCL:** See Dear Colleague Letter

**Deactivation:** Loss of eligibility for a lender to participate in the FFELP. Beginning in December 1994, the Department will notify lenders that have failed to submit an ED Form 799 for two consecutive quarters that they are candidates for deactivation.

**Dear Colleague Letter: (DCL)** A communication from the Department that explains and clarifies the Department's guidance regarding federal regulations and statutes.

**Dear Partner Letter: (DPL)** A communication from the Department that explains and clarifies the Department's guidance regarding federal regulations and statutes.

**Debt-Management Counseling:** Counseling provided to a student about debt and accumulated indebtedness. Counseling is required both before the student receives the first disbursement of the student's first loan—often referred to as entrance counseling, and when the student is scheduled to complete an academic program—commonly referred to as exit counseling. See subsections 4.9.B and 4.9.C.

**Default:** The failure of a borrower (or endorser or comaker, if any) to make installment payments when due, or to meet other terms of the promissory note or other written agreement(s) with the lender under circumstances where the Department or guarantor of the loan reasonably concludes that the borrower no longer intends to honor the borrower's obligation to repay a loan, provided that this failure persists for the most recent period of 270 consecutive days (for a loan repayable in monthly installments) or the most recent 330-day period (for a loan repayable in less frequent installments). See section 12.6.

**Default Aversion Assistance: (DAA)** The help provided to a lender by the guarantor in order to prevent a delinquent loan from defaulting. See section 11.5.

**Default Aversion Assistance Request Period:** The period during which a lender must submit a request for default aversion assistance from a guarantor. This period begins no earlier than the 60th day and ends no later than the 120th day of the borrower's delinquency.

**Deferment:** A period of time during repayment in which the borrower, upon meeting certain conditions, is not required to make payments of loan principal. See chapter 10.

**Delayed Delivery:** The federally mandated delay in the school's delivery of the first disbursement of loan funds for first-year, first-time undergraduate Stafford loan borrowers. Schools subject to delayed delivery must delay the delivery of the first disbursement until the student completes the first 30 days of his or her program of study. For more information on delayed delivery provisions, see subsection 8.7.D.

**Delayed Disbursement:** The federally mandated delay of the first disbursement of loan funds for first-year, first-time undergraduate Stafford loan borrowers. The school is prohibited from scheduling the first disbursement of a loan to these students earlier than:

- The 28th day of the first payment period if the loan is disbursed by EFT or master check.
- The first day of the first payment period if the loan is disbursed by individual check.

**Delinquency:** A period that begins on the day after the due date of a payment when the borrower fails to make the equivalent of one full payment. See section 11.2.

**Department, the:** The U.S. Department of Education or an official or employee of the Department acting for the Department under a delegation of authority.

**Dependent Student:** A student who does not meet the eligibility requirements for an "Independent Student," under the Higher Education Act of 1965, as amended. See **Independent Student.**

**Diligent Effort:** An attempt to perform a required activity in a matter that complies with federally mandated procedures and requirements. See chapter 9.

**Disability:** A medically determined condition that renders a person unable to work and earn money, or, in some cases, to attend school. A borrower (or his spouse or dependent) is considered to be *temporarily totally disabled* if the condition is expected to be of a short and finite duration (see section 10.15); a borrower is considered *totally and permanently disabled* if this condition is expected to continue for a long or indefinite period of time, or to result in death (see subsection 12.8.E).

**Disbursement:** The transfer of loan proceeds by individual check, master check, or electronic funds transfer (EFT) by a lender to a borrower, a school, or an escrow agent (see section 7.7). For a Consolidation loan, disbursement is the transfer of borrower loan proceeds from the consolidating lender to the current holder of the loan being consolidated (see section 14.4).

**Disbursement Date:** For a loan disbursed by check or draft, the date the check or draft is issued. For a loan disbursed by electronic funds transfer (EFT) or wire transfer, the date the funds are transferred from the lender to the school or escrow agent.

**Discharge:** The release of a borrower from a loan obligation due to the borrower's bankruptcy, the closing of a borrower's school, the borrower's (or student's) death, the borrower's total and permanent disability, or the school's false certification of the borrower's eligibility for a FFELP loan.

**Documentation:** A written or printed paper, a supporting reference, or a record that can be used to furnish evidence, proof, or information.

**DPL:** See Dear Partner Letter

**Dual-Program Cohort Default Rate:** For a school that has former students entering repayment in a fiscal year on both FFELP and FDLP loans, the Department calculates a dual-program cohort default rate. See section 15.2 for calculation formulas.

**Due Diligence:** The procedures required for attempting to satisfactorily resolve a delinquency and prevent a default in accordance with federal regulations. The lender must document the performance of these attempts, and the attempts must be at least as forceful as those generally used for consumer loans. See chapter 11.

## E

**Economic Hardship:** A period during which the borrower is working full time but is earning an amount that does not exceed the greater of the minimum wage or the poverty line for a family of two. Economic hardship also exists if a borrower's monthly payments on federal education loans are equal to or greater than 20 percent of the borrower's monthly income, as defined in FFELP regulations.

**ED Form 799:** Lender's Interest and Special Allowance Request and Report, a federal form that a lender uses to report loans made (and resulting origination fees owed) by the lender to the Department and interest benefits and special allowance earned by the lender. The fees owed are usually deducted from what the Department owes the lender for interest benefits and special allowance. See appendix A.

**EFA:** See Estimated Financial Assistance

**EFC:** See Expected Family Contribution

**Effective Commercial Skip Tracing:** Techniques used to locate a person whose address is unknown. Examples of these techniques may include contacting an endorser (e.g., to locate a borrower), a borrower (e.g., to locate an endorser or comaker), a relative, a reference, individuals, entity identified in a borrower's loan file, Directory Assistance or a comparable service; attempting to contact the person by calling the last known telephone number; performing a Social Security number search via a credit report; reviewing city directories; processing information contained on the current credit report; or checking with a state licensing agency, a trade association, or a motor vehicle bureau (see section 11.7 for address skip tracing requirements). See also Skip Tracing.

**EFT:** See Electronic Funds Transfer

**Electronic Funds Transfer: (EFT)** The electronic transfer of Stafford or PLUS loan proceeds from the lender to an account at the school or the school's financial institution. See subsection 7.7.D.

**Electronic Signature:** Information in electronic format that is attached to or logically associated with an electronic record and used by a person with the intent to sign the electronic record.

**Eligibility Letter:** A term used to describe the materials the Department's Institutional Participation Division sends to a school that has received federal approval for participation in the Title IV programs. The "letter" includes an Approval Notice and a copy of the school's Program Participation Agreement (PPA).

**Eligible Borrower:** A borrower or potential borrower who meets federal eligibility criteria for a Federal Stafford loan or, in the case of a parent borrower, a Federal PLUS loan. See sections 5.1 and 5.2 for specific criteria.

~~**Eligible Lender:** See section 3.1 of this manual.~~[1]

**Eligible School:** A postsecondary institution of higher education or a postsecondary vocational school declared eligible by the U.S. Department of Education to participate in the FFELP. Some guarantors may require schools to complete a separate agency-specific participation agreement. See section 4.1.

**Eligible Student:** A student who meets federal student eligibility criteria. See subsection 5.1.B. for specific criteria.

**Emergency Action:** A special action taken by the guarantor or the Department to temporarily immediately suspend a school, lender, or servicer from participation in the guarantor's programs prior to the initiation of formal Limitation, Suspension, and Termination procedures. See subsection 17.1.D.

**Endorser:** A signer of a promissory note who is secondarily liable for a loan obligation, i.e., who agrees to pay if the borrower does not. A lender may require a PLUS borrower with adverse credit to obtain a creditworthy endorser in order to receive the loan.

**Enrolled:** The status of a student who has met either of the following requirements:

- Completed the registration requirements (except for the payment of tuition and fees) at the school the student is attending.
- Been admitted into an educational program offered predominantly by correspondence and has submitted one lesson, completed by the student after acceptance for enrollment and without the help of a representative of the school.

**Enrollment Reporting:** The method by which schools confirm and report to the National Student Loan Data System (NSLDS) the enrollment status of attending students who receive Title IV loans. This process was formerly known as the Student Status Confirmation Report (SSCR).

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**Entity:** For purposes of this manual, any organization, institution, government agency, nonprofit corporation, or other group that participates in federal student financial aid programs.

**Entrance Counseling (or Entrance Interview):** See Debt-Management Counseling

**Escrow Agent:** A guarantor or other eligible lender that receives the proceeds of a FFELP loan as an agent of an eligible lender for the purpose of transmitting those proceeds to the borrower or the borrower's school.

**Estimated Financial Assistance: (EFA)** The school's estimate of the amount of financial assistance from federal, state, institutional, or other sources that a student (or parent on behalf of a student) will receive for a period of enrollment. This may include veterans' and national service awards and benefits (except when determining eligibility for a subsidized Stafford Loan), scholarships, grants, financial need-based employment, or loans. EFA does not include Federal Perkins Loans or Federal Work-Study funds that the student has declined or certain loans used to replace the expected family contribution. See section 6.7.

**Excess Interest Rebate:** See Windfall Profits

**Exit Counseling (or Exit Interview):** See Debt-Management Counseling

**Expected Family Contribution: (EFC)** The amount a student and the student's spouse or family are expected to pay toward the student's cost of attendance. The federal Need Analysis Methodology must be used to calculate the EFC. See section 6.6.

**Extended Repayment Schedule:** A repayment schedule available to a "new borrower" on or after October 7, 1998, with outstanding principal and interest in FFELP loans totaling more than $30,000. An extended repayment schedule may provide for standard or graduated installments over a period not to exceed 25 years.

## F

**FAA:** See Financial Aid Administrator

**FAFSA:** See Free Application for Federal Student Aid

**FAT:** See Financial Aid Transcript

**FDLP:** See Federal Direct Loan Program

**Federal Direct Loan Program: (FDLP)** A student loan program authorized on July 23, 1992, by Title IV, Part D, of the Higher Education Act. The Federal Direct Loan Program offers Federal Direct (Subsidized) Stafford loans, Federal Direct Unsubsidized Stafford loans, Federal Direct Consolidation loans, and Federal Direct PLUS loans. The FDLP is similar to the FFELP, except that funding comes directly from the U.S. Treasury rather than from private lending institutions.

**Federal Family Education Loan Program: (FFELP)** Loan programs authorized by Title IV, part B of the Higher Education Act of 1965, as amended, that includes the Federal Stafford, Federal PLUS, Federal SLS, and Federal Consolidation Loan Programs. These loan programs are funded by lenders, guaranteed by guarantors, and reinsured by the federal government. These programs are defined individually in 34 CFR 668.

**Federal Interest Benefits:** The federal government's payment of accrued interest on subsidized Stafford loans to the lender on behalf of the borrower during in-school, grace, and deferment periods (see section 9.9). Some Consolidation loans also may qualify for interest benefits (see section 14.6). For more detailed information regarding the collection of federal interest benefits, see section A.1 of appendix A.

**Federal Need Analysis Methodology: (FM)** The formula used to calculate the expected family contribution with regard to determining the amount of Title IV assistance available to a borrower.

**Federal Register:** A federal government publication, published each weekday (except federal holidays), that lists regulations, regulatory amendments, notices, and proposed regulatory changes for all federal executive agencies.

**FFELP:** See Federal Family Education Loan Program

**File Transfer Protocol: (FTP)** A standard Internet protocol that allows the transmission of data files.

**Final Demand:** A letter that the lender mails to the borrower demanding full payment of a delinquent or ineligible account. The letter is required as part of the due diligence procedures for collecting a loan that is seriously delinquent or ineligible. The final demand letter is mailed on or after the 241st day of delinquency for loans payable in monthly installments. The letter must be mailed at least 30 days before the lender files a default claim.

**Final Regulations:** Federal program rules, which are published in the ***Federal Register***. Final regulations usually take effect 45 days after the date of publication.

**Financial Aid Administrator: (FAA)** A staff member at an eligible school who is charged with the administration of financial aid programs.

**Financial Aid Package:** The total amount of financial aid that a school awards a student. Federal and nonfederal aid such as loans, grants, or work-study are combined into a "package" to help meet the student's cost of attendance. Using available resources to give each student the best possible aid package is one of the major responsibilities of a school's financial aid administrator.

**Financial Aid Transcript: (FAT)** An official record of the federal financial aid a student has received at schools the student previously attended. The record is used to assess the amount of federal financial aid the student has received and to prevent the award of federal funds for which the student or the parent of a dependent student is not eligible. The record may be obtained from the National Student Loan Data System (NSLDS) or may be a paper report received from the previous schools.

**Financial Need:** The student's cost of attendance less the expected family contribution. In determining a student's eligibility for a subsidized Stafford loan and a FFELP borrower's total loan amount, the student's estimated financial assistance is also subtracted from the cost of attendance.

**FM:** See Federal Need Analysis Methodology

**Forbearance:** A period of time during which the borrower is permitted to temporarily cease making payments or reduce the amount of the payments. The borrower is liable for the interest that accrues on the loan during the forbearance period. Some forbearances are entitlements for eligible borrowers; others are granted at the discretion of the lender. See section 10.18.

**Foreign School:** An eligible school located outside the United States and its territories.

**Free Application for Federal Student Aid: (FAFSA)** The form the student must complete to apply for federal Title IV financial assistance, including Stafford loans. The student must include financial information on the student's household so that the expected family contribution can be calculated. See section 6.6.

**Freely Associated States:** The Republic of the Marshall Islands, the Federal States of Micronesia, and the Republic of Palau. See also State.

**FTP:** See File Transfer Protocol

**Full-Time Student:** A student enrolled in an institution of higher education (other than a student enrolled in a program of study by correspondence) who is carrying a full academic workload as determined by the school under standards applicable to all students enrolled in that student's particular program. The student's workload may include any combination of courses, work, research, or special studies, whether or not for credit, that the school considers sufficient to classify the student as a full-time student. See section 6.9 for a detailed definition of a full-time student that includes credit- and clock-hour requirements.

**Funds:** Any monies (including checks, drafts, or other instruments); any commitment to provide money; or any commitment of insurance that has been, or may be, provided under the guarantor's programs to a borrower enrolled at and attending a participating school, or a borrower accepted for enrollment at a participating school.

## G

**Gap:** A period during the servicing of a loan in repayment when due diligence activities are required by regulations but no due diligence activities (collection activities) are performed. For a loan serviced under regulations published December 18, 1992, a gap greater than 45 days (greater than 60 days in the case of a transfer) results in the loss of the loan's guarantee.

Previously, the term "gap" was defined in Appendix D of 34 CFR 682, and was applicable to loans serviced under due diligence provisions published November 10, 1986. For loans serviced under these "old" due diligence provisions, a gap in due diligence activities did not result in a loss of the loan's guarantee unless the lender had committed a violation of at least one due diligence requirement.
[§682.411(j); §682, Appendix D; Appendix A of DCL 96-G-287/96-L-186]

**Grace Period:** The period that begins the day after a Stafford loan borrower ceases to be enrolled at least half time at an eligible school, ends the day before the repayment period begins, and during which payments of principal are not required. For a borrower with a Stafford loan that has not yet entered repayment who also has an SLS loan, the grace period for the SLS loan is the equivalent of the grace period for the Stafford loan if the borrower requests grace on his or her SLS loan(s) (see section 9.3).

**Grade Level:** A student's academic class level, as certified by a school official. Undergraduate students are *01* (freshman/first year) through *05* (fifth year/other undergraduate); graduate and professional students are *A* (first year) through *D* (fourth year and beyond).

**Graduate or Professional Student:** A student who:

- Is enrolled in a program or course above the baccalaureate level at an institution of higher education, or enrolled in a program leading to a first professional degree.
- Has completed the equivalent of at least three years of full-time study at an institution of higher education, either before entrance into the program or as part of the program itself.
- Is not receiving Title IV aid as an undergraduate student for the same period of enrollment.

**Graduated Repayment Schedule:** A repayment schedule under which the amount of the borrower's installment payment is scheduled to change (usually by increasing in two or more increments) during the course of the repayment period. The graduated repayment schedule cannot exceed 10 years (or 25 years for borrowers eligible for an extended repayment schedule), excluding in-school, grace, deferment, or forbearance periods.

**Guarantee:** A conditional legal obligation, as defined in an agreement by and between a guarantor and a lender, for the guarantor to reimburse the lender for some portion of a loan that is not repaid by the borrower due to default, death, disability, bankruptcy, borrower ineligibility, false certification of borrower eligibility, or school closure.

**Guarantee Disclosure:** The form used by the guarantor that serves as evidence that the loan identified on the form has been insured (guaranteed) under the guarantor's program (see also Guarantee). The form also provides relevant loan data, which may include the loan amount, interest rate, guarantee and origination fees (if applicable), and projected maturity date. See section 6.20.

**Guarantee Fee:** A fee charged by a guarantor for each loan it guarantees. In most cases, the lender reduces the amount of the loan proceeds by this amount, and the fee is remitted to the guarantor. The Higher Education Act limits this fee to no more than one percent of the principal. See section 7.8.

**Guarantor (or Guaranty Agency):** A state or private nonprofit organization that has an agreement with the U.S. Secretary of Education to administer a loan guarantee program under the Higher Education Act.

**Guaranty Agency:** See Guarantor (or Guaranty Agency)

## H

**Half-Time Student:** A student who is: (1) enrolled in a participating school; (2) carrying an academic workload that amounts to at least half of the workload of a full-time student, as determined by the school; and (3) not a full-time student. A student enrolled solely in an eligible program of study by correspondence is considered a half-time student.

**HEA:** The Higher Education Act of 1965, as amended.

**Hearing:** The orderly presentation of arguments and evidence before a Hearing Officer.

**Hearing Officer:** A person with no prior involvement in a dispute under the Limitation, Suspension, and Termination procedures outlined in chapter 17 of this manual. The Hearing Officer for any hearing will be selected by the guarantor.

**Holder:** An eligible lender owning a FFELP loan. A federal or state agency or an organization or corporation acting on behalf of such an agency and acting as a conservator, liquidator, or receiver of an eligible lender may also be considered a holder.

## I

**ICA/Location Cure Procedure:** See Intensive Collection Activities

**Incarcerated:** The status of a student or borrower who is serving a criminal sentence in a federal, state, or local penitentiary, prison, jail, reformatory, work farm, or other similar correctional institution. A student or borrower who is living in a halfway house or in home detention or who has been sentenced to serve only weekends is not considered to be incarcerated.

**Income-Contingent Repayment Schedule:** A repayment schedule for some FDLP loans under which the borrower's monthly payment amount is adjusted annually, based on the total amount of the borrower's Direct loans, the borrower's family size, and the Adjusted Gross Income reported on the borrower's most recent income tax return. In the case of a married borrower, who files a joint income tax, the AGI includes the spouse's income.

**Income-Sensitive Repayment Schedule:** A repayment schedule for some FFELP loans under which the borrower's monthly payment amount is adjusted annually, based solely on the borrower's expected total monthly gross income received from employment and other sources during the course of the repayment period.

**Independent Student:** A student who meets one or more of the following criteria:

- An individual who is at least 24 years old by December 31 of the award year.
- An orphan or ward of the court.
- A veteran of the U.S. Armed Forces.
- A graduate or professional student.
- A married person.
- An individual with legal dependents other than a spouse.
- A student for whom the school's financial aid administrator determines and documents the student's independent student status based on the administrator's professional judgment of the student's unusual circumstances.

**Ineligible Borrower:** A borrower who does not meet federal eligibility criteria for a Federal Stafford loan or, in the case of a parent borrower, a Federal PLUS loan. See subsection 5.1.A for specific eligibility criteria, and subsections 11.4.F and 12.6.B for more information.

**In-School Period:** The time during which a student is enrolled on at least a half-time basis at a participating school. See section 9.2.

**Institution:** Generally refers to a school participating in the Title IV programs. See Participating School.

**Institution of Higher Education:** A school that:

- Is located in a state (see State).
- Admits as a regular student only a person who has a certificate of graduation from a secondary school or a recognized equivalent or has demonstrated the ability to benefit from the school's education or training program by passing a federally approved standardized test.
- Is legally authorized in each state in which it is physically located to provide, and provides within that state, a program of postsecondary education that awards an associate, bachelor's, graduate, or professional degree or provides a program of not less than two years in length that is acceptable for full credit toward such a degree or training program of at least one year that leads to a certificate, degree, or other recognized credential and prepares students for gainful employment in a recognized occupation.
- Is a public or other nonprofit school and is accredited by a nationally recognized accrediting agency or association approved by the U.S. Department of Education for this purpose, or if not so accredited, is a school that the Department determines will meet the accreditation standards of such an agency or association within a reasonable period of time.

**Institutional Student Information Record: (ISIR)** The electronic output record provided to the school by the Department's Central Processing System that includes information provided by the student on the Free Application for Federal Student Aid (FAFSA). The ISIR also contains the student's expected family contribution (EFC) and the results of federal database matches. The paper version that is sent to the student is called a Student Aid Report (SAR).

**Insurance Premium:** See Guarantee Fee

**Intensive Collection Activities: (ICA)** A series of collection activities performed within an abbreviated time frame. Performance of the activities within the time frames prescribed reestablishes the guarantee on loans on which the lender's noncompliance with due diligence requirements has resulted in the cancellation of the guarantee. See section 13.6.

**Interest:** The charge made to a borrower for use of a lender's money. Past and present applicable interest rates for FFELP loans are included in section 7.4.

**Interest Benefits:** See Federal Interest Benefits

**Interim Period:** The period during which a Stafford loan borrower is in the in-school or grace period. If the borrower returns to school before the grace period is fully used, the borrower continues to qualify for in-school status and to be considered in the interim period.

**Invalid Telephone Number:** For purposes of lender due diligence requirements in the collection of loans, a functioning telephone number that has been assigned to someone who has no knowledge of or relationship with the borrower.

**IRS Offset:** See Treasury Offset

**ISIR:** See Institutional Student Information Record

## L

**Last Date of Attendance:** The last day the student was physically present in class, as confirmed by the student's attendance records.

**Late Charges:** Charges that the lender may require the borrower to pay if the borrower fails to pay all or a portion of a required installment payment within 15 days after it is due. This charge may not exceed 6 cents for each dollar of each late installment.

**Late Conversion:** The scheduling of a Stafford, SLS, PLUS, or Consolidation loan borrower's first payment due date beyond the normal regulatory time limits for establishing that date. See subsection 9.5. for information on the regulatory time frames.

**Late Disbursement or Delivery:** A disbursement made by a lender or delivered by a school after the end of the loan period or the date on which the student ceased to be enrolled on at least a half-time basis. See subsections 7.7.G and 8.7.E.

**Leader, Summer Term:** A summer term that comes at the beginning of a school's Scheduled Academic Year.

**Leave of Absence:** For purposes of the *Common Manual*, a leave of absence is a status in which the student is considered to be continuously enrolled for Title IV program purposes, as approved by the school. An approved leave of absence is a break in enrollment, not including a semester or spring break, that is requested by the student and approved by the school based upon the school's published leave of absence policy. The student's request must be in writing and must include the reason for the leave. In an approved leave of absence, the student does not incur any additional charges. The total number of days of all approved leaves of absence may never exceed 180 days in any 12-month period.

For information on an *unapproved* leave of absence (i.e., a leave of absence that is not considered approved for Title IV purposes), see sections 4.5 and 4.6.

**Lender:** For purposes of the Federal Family Education Loan Program (FFELP), a lender is an entity that has entered into an agreement to participate in the FFELP. A lender may be a national or state chartered bank, a mutual savings bank, a savings and loan association, a stock savings bank, a credit union, a pension fund, an insurance company, a single state agency, the Student Loan Marketing Association (SLMA), a Rural Rehabilitation Corporation, a nonprofit private agency functioning in a state as a secondary market, a consumer finance company subsidiary of a national bank, a guarantor, or a school. Each entity must meet the specific eligibility qualifications, as applicable, outlined in sections 3.1 and 3.2. ~~See section 3.1.~~[1]

**Lender Fee:** A fee that the holder of the loan must pay to the Department on any loan first disbursed on or after October 1, 1993. The fee is equal to 0.5% of the principal amount of the loan and is deducted from interest and special allowance due the lender. The lender remits the fee by making an entry on the ED Form 799 that results in an offset of the amount of quarterly interest and special allowance benefits due to the lender. The lender may not pass this fee on to the borrower. For more information about the lender fee, see appendix A.

**Lender of Last Resort: (LLR)** A lender (or guarantor, in some cases) that agrees to make Stafford loans to students who qualify for interest benefits, who are eligible for combined subsidized and unsubsidized Stafford loan amounts of at least $200, and who are otherwise unable to obtain loans from other eligible lenders for the same period of enrollment (or who are attending schools that have been designated LLR schools). See section 3.7.

**Lender Participation Questionnaire for New Lenders:** The application form that a lender must complete and return to the Department before receiving approval to participate in the FFELP.

**Limitation:** The continuation of a school's eligibility to participate in the guarantor's programs, subject to compliance with special conditions or restrictions established by agreement with the Department or the guarantor. See subsection 17.1.A.

**LLR:** See Lender of Last Resort

**Loan Assignment:** See Assignment

**Loan Period:** The period of time for which a loan application is certified.

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**Loan Proceeds:** The amount of loan funds that have been guaranteed.

**Loan Sale:** The change in ownership of a loan from one eligible FFELP lender or holder to another lender or holder.

**Loan Transfer:** Any action that results in a change of the system used to monitor or conduct collection activities on the loan, such as a change in servicer. See subsections 3.4.B and 3.5.E.

**Location Cure Procedure:** See Intensive Collection Activities

## M

**Mandatory Administrative Forbearance:** Forbearance that a lender is required to grant in certain cases ~~for periods during which the borrower is involved in a local or national emergency or military mobilization or resides in a designated disaster area. A lender is also required to grant a mandatory administrative forbearance for up to three years if the borrower's repayment period must be extended due to the effect of changes in the variable interest rate on standard or graduated repayment terms and for up to five years to accommodate income-sensitive repayment schedules~~. See section 10.21 and Figure 10-2 for comprehensive information about cases in which mandatory administrative forbearance is applicable, and a description of a lender's responsibilities in each case.

**Mandatory Forbearance:** Forbearance that a lender is required to grant in certain cases ~~for medical or dental internships and residencies after the borrower's in-school deferment period has expired, for service in AmeriCorps, for excess student loan debt burden, for participation in the student loan repayment programs as administered by the U.S. Department of Defense, and for nonmedical or dental internships~~. See section 10.22 and Figure 10-2 for comprehensive information about cases in which mandatory forbearance is applicable, and a description of a lender's responsibilities in each case.[1]

**Master Check:** A single check issued from a lender or disbursing agent to a school that includes loan disbursements for two or more borrowers; a nonelectronic process for transferring funds that mirrors electronic funds transfer (EFT).

**Master Promissory Note: (MPN)** A promissory note under which the borrower may receive loans for either a single academic year or multiple academic years. See section 6.16. The MPN forms, developed by FFELP participants and approved by the Department, are the Stafford Master Promissory Note (Stafford MPN) and the PLUS Application and Master Promissory Note (PLUS MPN).

**MPN:** See Master Promissory Note

**Multiple Disbursements:** Disbursement at predesignated times of a Federal Stafford or PLUS loan—usually in two or more installments of approximately equal increments. See subsection 7.7.B.

## N

**National and Community Service Trust Act:** The federal legislation that created a national and community service program, including AmeriCorps. The program is administered by the Corporation for National Service.

**National Council of Higher Education Loan Programs: (NCHELP)** A nationwide network of guarantors, secondary markets, lenders, loan servicers, collectors, and other organizations involved in the administration of the Federal Family Education Loan Program. NCHELP represents its members on public policy and regulatory issues with the legislative and executive branches of the federal government.

**National Credit Bureau:** A credit reporting agency with a service area encompassing more than a single region of the country.

**National of the United States:** A citizen of the United States or, as defined in the Immigration and Nationality Act, a noncitizen who owes permanent allegiance to the United States.

**National Student Loan Data System: (NSLDS)** A database comprised of information from guarantors, schools, lenders, and the Department of Education which contains information on Title IV aid received by students.

**Need Analysis:** A standardized assessment of the ability of a student or of a student's family to contribute toward educational expenses.

**New Borrower:** A borrower who has no outstanding balance on a FFELP loan at the time he or she signs a promissory note for a FFELP loan.

**Nonsubsidized Loan:** A loan that is not eligible for federal interest benefits. The borrower is responsible for paying the interest on the outstanding principal balance of a nonsubsidized loan throughout the life of the loan. During in-school, grace, and deferment periods, these interest

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payments are normally made on a monthly or quarterly basis, or are capitalized. *Nonsubsidized loans were guaranteed by some guarantors before the introduction of unsubsidized Stafford loans.*

**Non-Term-Based Institution:** A school that measures its academic year in credit or clock hours rather than academic terms (e.g., semesters, trimesters, or quarters).

**Notification (as it relates to the Stafford MPN):** A process by which the school, lender, or guarantor notifies the borrower of the proposed loan types and amounts. The borrower is required to take action only to reject or adjust the type or amount of the loan.

**NSLDS:** See National Student Loan Data System

## O

**Official:** The person at the guarantor with the responsibility for initiating an Action under the Limitation, Suspension, or Termination procedures outlined in chapter 17 of this manual.

**One-Academic-Year Training Program:** A program that is at least at least 30 weeks in length during which the student earns at least:

- 24 semester or trimester hours or units, or 36 quarter hours or units at a school using credit hours or units to measure academic progress.
- 900 clock hours of supervised training at a school using clock hours to measure academic progress.
- 900 clock hours in a correspondence program.

**Origination Fee:** A fee charged to offset the cost of interest, special allowance, and reinsurance payments by the federal government on a FFELP loan. This fee, if charged to the borrower, may be subtracted from the borrower's loan proceeds. See section 7.9.

**Overaward:** Any amount of a student's total financial assistance (excluding Pell Grants) that exceeds the student's financial need. See section 8.6.

## P

**Parent:** For purposes of PLUS loan eligibility, a student's natural or adoptive mother, father, or the spouse of a parent who remarried if the spouse's income and assets would have been taken into account when calculating a dependent student's expected family contribution.

**Partial Cancellation:** Cancellation of a disbursement or a portion of a disbursement rather than of an entire loan.

**Participating School:** A school that meets the standards for participation in Title IV, HEA programs in subpart B, has a current Program Participation Agreement with the Department, and is eligible to receive funds under these programs. See Eligible School.

**Payment Period:** The basis on which a school must schedule and deliver disbursements for a particular loan period. The payment period begins on the first day of regularly scheduled classes. A payment period is determined based on the structure of the school's academic program. At a school that does not use standard terms, a payment period is measured in credit or clock hours completed by the student in relation to the length of the student's program of study. The payment period requirement does not eliminate the multiple disbursement requirement for a school to deliver loan proceeds in substantially equal installments, with no installment exceeding one-half of the loan amount. See section 6.3.

**Pell Grant:** A federal need-based grant.

**Period of Enrollment:** As defined by federal regulation, the period for which a Stafford or PLUS loan is intended. The period of enrollment must coincide with a bona fide academic term established by the school for which the school's charges are generally assessed, i.e., semester, trimester, quarter, length of the student's program or the school's academic year. The period of enrollment is also referred to as the loan period (see section 6.2). In addition, the term "period of enrollment" is commonly used by the financial aid community to refer to the period of time during an academic year when a student is enrolled at the school.
[§682.200(b); §682.603(f)(1) and (2)]

**Permanent Resident of the United States:** A person who meets certain requirements of the U.S. Immigration and Naturalization Service (INS). Valid documentation of permanent residency includes the following: I-551, I-151, I-181, I-94, or a passport stamped processed for I-551, "Temporary evidence of lawful admission for permanent residence."

**Post-Deferment Grace Period:** A 6-month period following a deferment during which payments are not required. The 6-month post-deferment grace period applies only to loans disbursed before October 1, 1981, and, in some cases, to loans for borrowers who participated on active-duty status in certain emergency military mobilizations, such as Operations Desert Shield/Desert Storm. See subsection 10.1.H.

**Post-Withdrawal Disbursement:** A disbursement made when the calculations for the school's return of Title IV funds result in the student being eligible to receive more Title IV aid than was disbursed or delivered prior to his or her withdrawal. A post-withdrawal disbursement must meet certain conditions for late disbursement. See subsection 4.7.A.

**PPA:** See Program Participation Agreement

**Preaccredited School:** A public or private nonprofit school that is progressing towards accreditation within a reasonable period of time, as certified by an accrediting agency. The status must be recognized by the Department for purposes of Title IV program eligibility. See also Accrediting Agency.

**Preclaim Assistance:** See Default Aversion Assistance

**Prehearing Conference (as used in chapter 17):** Contact by any method, including telephone, between the parties for the purpose of settling or narrowing a dispute related to limitation, suspension, and termination proceedings.

**Prepayment:** A payment received when the borrower is not required to make either principal or interest payments; when a borrower is required to make interest payments, but previously authorized the lender to capitalize accruing interest; or when the borrower makes a payment that is greater than the amount of the borrower's regular installment or the amount due. See subsection 9.11.B. for more information on prepayments.

**Principal Balance:** The outstanding amount of the loan, on which the lender charges interest. As the loan is repaid, a portion of each payment is used to satisfy interest that has accrued, and the remainder of the payment is used to reduce the outstanding principal balance.

**Professional Judgment:** The flexibility given to a financial aid administrator (FAA) under the Higher Education Act to make adjustments to student eligibility for federal aid on a case-by-case basis. See subsections 6.5.D and 6.6.B.

**Professional Student:** See Graduate or Professional Student

**Program of Study:** A Department-authorized postsecondary educational program that leads to a degree, certificate, or other educational credential.

**Program Participation Agreement: (PPA)** An agreement that a school and the U.S. Department of Education must sign, permitting participation in one or more of the Title IV student financial assistance programs. This agreement also states that the initial and continued eligibility to participate in the Title IV student financial assistance programs is conditional upon compliance with the provisions of applicable laws and program regulations. The agreement includes a school's participation in the following federal programs: Federal Pell, Federal Supplemental Educational Opportunity Grant, Federal Work-Study, Federal Family Education Loans, and Direct Loans.

**Program Review:** A comprehensive review of a lender's, school's, or servicer's administrative procedures for handling Federal Stafford, PLUS, SLS, and Consolidation loans. The review is conducted to ensure that those procedures are in compliance with federal regulations and with the guarantor' policies and procedures. Chapter 16 addresses several aspects of program reviews.

**Promissory Note:** A legally binding agreement the borrower signs to obtain a loan under the FFELP, in which the borrower promises to repay the loan, with interest, in periodic installments. The agreement also includes information about any grace period, deferment, or cancellation provisions and the student's rights and responsibilities with respect to the loan.

**Proration:** A reduction of the standard annual loan limit for an undergraduate student. Proration of the loan amount is required if the student's program or the remainder of the student's program is less than a full academic year in length.

**Proportional Proration:** A required calculation performed to determine the applicable annual Stafford loan limit for an undergraduate student whose program of study is less than an academic year, or whose remaining program of study is less than an academic year. See Figure 5-1.

## R

**Reaffirmation:** A borrower's acknowledgment of a loan repayment obligation—including all principal, interest, collection costs, legal costs, and late charges—in a legally binding manner.[1]

**Reauthorization:** Refers to the legislative process—generally carried out every 5 years in the case of the Higher Education Act—whereby Congress reviews and either renews, terminates, or amends existing programs. The most recent reauthorization of the Act, as amended, was in 1998.

1. Policy 698 (Batch 105), approved August 21, 2003

**Recall (of a claim):** A lender request that the guarantor return a default claim that has already been filed before claim reimbursement because the claim no longer qualifies for default. (Please refer to subsection 12.2.B for the definition of recall (of a claim) for CCI purposes.)

**Recognized Equivalent of a High School Diploma:** A recognized equivalent of a high school diploma is any one of the following:

- A General Education Development (GED) Certificate.
- A state certificate received by the student after passing a state-authorized examination recognized by the state as the equivalent of a high school diploma.
- The academic transcript of a student who has successfully completed at least a two-year program acceptable for full credit toward a bachelor's degree.
- For a student seeking enrollment in at least an associate degree program or its equivalent, who has not completed high school but has excelled academically at the high school level, documentation obtained by the participating school that the student excelled academically and has met the participating school's written policies for admitting such students.

**Record:** With respect to recordkeeping requirements for lenders and schools, official information or data relating to a borrower's loan account or file that can be used as evidence.

**Refund:** The difference between the amount the student paid toward institutional charges and the amount the school can retain under the appropriate (e.g., institutional, state, or accrediting agency) refund policy. See also Return of Title IV Funds. For more information on the federally mandated process for calculating the amount of Title IV funds to be returned when a student withdraws, see sections 4.5, 4.6, and 4.7.

**Regular Student:** A person enrolled or accepted for enrollment for the purpose of obtaining a degree, certificate, or other recognized educational credential.

**Regulation B:** The section of the Equal Credit Opportunity Act (12 CFR 202) that prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, or age.

**Rehabilitation (of a defaulted loan):** A process by which a borrower may bring a FFELP loan out of default by adhering to specified repayment requirements (see section 12.7).

**Reinstatement (of borrower Title IV eligibility):** A process by which a borrower with a defaulted FFELP loan may regain eligibility for Title IV aid by adhering to strict repayment requirements (see subsection 5.2.E).

**Reinstatement (of institutional eligibility):** Formal permission by the guarantor for a school, lender, or servicer whose eligibility to participate in the guarantor's programs has been terminated to resume participation after meeting specific conditions.

**Release of Proceeds:** Delivery of loan proceeds by the school to the borrower. Release of proceeds is not disbursement of proceeds by the lender. See Disbursement.

**Repayment Period:** The period during which payments of principal and interest are required. The repayment period follows any applicable in-school or grace period and excludes any period of authorized deferment or forbearance. See sections 9.4, 9.5, and 9.6 for details on repayment.

**Repayment Schedule:** The legal addendum to the Promissory Note stating the terms of loan repayment and fulfilling disclosure requirements. The Repayment Schedule is a plan that indicates the total principal and interest due, an installment amount, and the number of installments required to pay the loan in full. The Repayment Schedule also contains the interest rate for the loan(s) included on the schedule, the due date of the first and subsequent installments, and the frequency of installments.

**Repayment Start Date:** The date the repayment period begins. For Stafford loans, repayment begins on the day following the last day of the grace period. For PLUS and SLS loans, repayment begins on the date the loan is fully disbursed. For Consolidation loans, repayment begins on the date the loan is disbursed. See sections 9.4 and 14.5.

**Repurchase (of a Claim):** The lender's purchase back from the guarantor of a defaulted loan for which the lender has already been reimbursed by the guarantor. (Please refer to section 12.5 for the definition of repurchase (of a claim) for CCI purposes.)

**Return of Title IV Funds:** The federally mandated process by which a school calculates the amount of federal funds to be returned for a Title IV aid recipient who

withdraws or who ceases attendance during a payment period or period of enrollment. The calculations may result in a reduction of the student's Title IV loan and grant aid to reflect the percentage of the payment period or period of enrollment that the student attended, if he or she attended 60% or less of the period. Based on these calculations, the school and the student may be required to return "unearned" federal assistance. See section 4.7.

**Rolling Delinquency:** A delinquency that occurs whenever the delinquent status of a loan is increased or reduced but not completely eliminated as result of a payment, the reversal of a payment, a deferment or forbearance, or the receipt of a new out-of-school date. See subsection 11.3.E.

**Rule of 78s:** A procedure for calculating the outstanding principal balance of a loan that is prohibited for loans made to a borrower who entered repayment on or after June 26, 1987. Seventy-eight is the sum of the digits from one to twelve (the number of months in a one-year installment contract).

## S

**SAP:** See Satisfactory Academic Progress

**SAR:** See Student Aid Report

**SAY:** See Scheduled Academic Year

**Satisfactory Academic Progress: (SAP)** The level of academic progress required of a student by the Higher Education Act in order to receive Title IV aid, including Federal Stafford, PLUS, or SLS loans. Each school must establish a standard for evaluating a student's efforts to achieve an educational goal within a given period of time. In making this evaluation, the school must establish the normal time frame for completion of the course of study in which the student is enrolled, and a method, such as grades or work projects completed, to measure the quality of the student's performance. Students enrolled in an undergraduate program who are enrolled beyond the school's maximum time frame for program completion are not eligible for additional Title IV assistance. A school's maximum time frame for program completion cannot exceed 150% of the published program length.

**Satisfactory Repayment Arrangement:** A specified number of consecutive, on-time, voluntary, reasonable and affordable full monthly payments made by a borrower to the holder of any loan or loans in default. Satisfactory repayment arrangements may be established by a borrower either to regain eligibility for Title IV funds, to rehabilitate a defaulted loan, or to consolidate a defaulted loan. The loan holder's determination of a "reasonable and affordable" payment amount is based on the borrower's total financial circumstances. "Voluntary" payments are payments made directly by the borrower, and do not include payments obtained by state offsets or federal Treasury offset, garnishment, or income or asset execution. An "on-time" payment is a payment received by the guarantor within 15 days before or after the scheduled due date. See subsection 5.2.E for more information on regaining eligibility for Title IV funds. See section 12.7 for more information on rehabilitating a defaulted loan. See section 14.2 for more information on consolidating a defaulted loan.

**Scheduled Academic Year: (SAY)** The "fixed" academic period, as ~~advertised~~ published in a school's printed materials, that generally begins and ends at the same time each year according to an established schedule. The SAY is the academic period to which the statutory definition of an ~~A~~academic ~~Y~~year must be applied and must meet the statutory requirements of an academic year as defined by the Department. ~~Non-term-based institutions~~ Schools may not use a~~n~~ SAY for borrowers enrolled in clock-hour and non-term-based credit-hour programs of study. The summer term may be treated as an add-on at the beginning (leader) or end (trailer) of the SAY. For ~~further discussion~~ additional information, see section 6.1 and the *Federal Student Aid Handbook*, Direct Loan and FFEL Programs Reference.[1]

**School:** A term in this manual that is used interchangeably with "Institution." See Institution.

**School Lender:** A school, other than a correspondence school, that has been approved as a lender under the FFELP and has entered into a contract of guarantee with the Department or a similar agreement with a guarantor.

**Secondary Market:** An entity that purchases education loans from eligible lenders in order to increase the amount of funds available for education loans. The secondary market obtains funds from investors and uses those funds to purchase existing education loans from lenders. The lenders then use the proceeds of those sales to make new education loans.

**Separation Date:** The date the student ceases to be enrolled on at least a half-time basis at an eligible school.

**Servicer (or Third-Party Servicer):** An entity that enters into a contract with a program participant to administer any aspect of its participation in a Title IV program.

**Shortage Area:** See Teacher Shortage Area

1. Policy 719 (Batch 108), approved November 20, 2003

**Skip Tracing:** Diligent efforts to locate a borrower's telephone number or address when such information is unknown. See section 11.8 for telephone skip tracing requirements and section 11.7 for address skip tracing requirements. See also Effective Commercial Skip Tracing.

**Social Security Number: (SSN)** The 9-digit number assigned to the borrower by the Social Security Administration. The SSN is used as an identifier for tracking the borrower's loan account(s), skip tracing, and reporting to the Department. A borrower must have an SSN in order to apply for a FFELP loan.

**Special Allowance:** A percentage of the daily average unpaid principal balance, paid to a lender by the Department on an eligible Stafford, PLUS, SLS, or Federal Consolidation loan. Special allowance payments act as an incentive for lenders to make education loans by, in effect, making up the difference between the interest rate charged to a FFELP borrower and market interest rates. The special allowance rate is set by statutory formula. See section A.2 of appendix A.

**Special Occurrence:** An event—such as the lender's receipt of a borrower's valid address and/or valid telephone number—that affects the lender's due diligence requirements but does not change the payment due date of the loan.

**SSN:** See Social Security Number

**Standard Repayment Schedule:** A repayment schedule under which the borrower pays the same amount for each installment payment throughout the entire repayment period or pays an amount that is adjusted to reflect annual changes in the loan's variable interest rate. The Standard Repayment Schedule cannot exceed 10 years, excluding in-school, grace, deferment, or forbearance periods.

**State:** A state of the Union, the District of Columbia, the Commonwealth of Puerto Rico, American Samoa, Guam, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, and the Freely Associated States (the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau).

**State Lender:** In any state, a single state agency or private not-for-profit agency designated by the state that has been approved as a lender and that has entered into a contract of guarantee with the Department or a similar agreement with a guarantor.

**Statement of Educational Purpose:** The borrower's signed statement that any Title IV aid received will be used only for education-related expenses at the school at which the student is enrolled or accepted for enrollment.

**Statutory Interest Rate:** The maximum annual interest rate (under the Higher Education Act) that a lender may charge on a loan. Past and present statutory interest rates for FFELP loans are included in sections 7.4 and 7.5.

**Student Aid Report: (SAR)** The paper output record provided to the student by the Department's Central Processing System that includes information provided by the student on the Free Application for Federal Student Aid (FAFSA). The SAR also contains student's expected family contribution (EFC), and the results of federal database matches. The electronic version that is sent to the school is called an Institutional Student Information Record (ISIR).

**Student Status Confirmation Report: (SSCR)** See Enrollment Reporting

**Subrogation:** A transfer in the ownership of a defaulted FFELP loan from a guarantor to the Department. Loans to be subrogated must meet criteria established and revised annually by the Department.

**Subsidized Loan:** A loan eligible for interest benefits paid by the federal government. The federal government pays the interest that accrues on subsidized loans during the student's in-school, grace, authorized deferment, and (if applicable) post-deferment grace periods, if the loan meets certain eligibility requirements.

**Suspension:** Suspension of the eligibility of a school, lender, or servicer to participate in a guarantor's programs for a specified period of time until specified requirements are met. See subsection 17.1.B.

## T

**T-bill:** See Treasury Bill.

**Teacher Shortage Area:** A federally designated geographic area, grade level, or academic, instructional, subject matter, or discipline that has been classified as a shortage area as defined by the Department. See section 10.14.

**Teach-Out Program:** A program of study offered by a school that is substantially similar to a borrower's program of study at a school that closed and ceased to provide educational services during the borrower's loan period.

**Telecommunications Course:** A course offered during an award year that principally uses television, audio, or computer transmission, including open broadcast, closed circuit, cable, microwave or satellite, audio conferencing, computer conferencing, or video cassettes or discs. A course is not considered to be a telecommunications course if the course is delivered using video cassettes or discs

unless that same course is also delivered to students who are physically attending classes at the school providing the course during the same award year.

**Term-Based School:** A school that uses standard academic terms, such as semesters, trimesters, or quarters.

**Termination:** Withdrawal of the eligibility of a school, lender, or servicer to participate in the guarantor's programs. See subsection 17.1.C.

**Third-Party Servicer:** In the case of a lender or guarantor, a state or private for-profit or nonprofit organization or an individual that enters into a contract with the lender or guarantor to administer any aspect of the lender's or guarantor's FFELP as required by statutory or regulatory provisions related to part B of Title IV of the Higher Education Act. In the case of a school, a state or private for-profit or nonprofit organization or an individual that enters into a contract with the school to administer any aspect of the school's participation in any Title IV program.

**Three-Times Rule:** The federal requirement that no single installment of a graduated or income-sensitive repayment schedule may be more than three times greater than any other installment.

**Title IV:** A section of the Higher Education Act of 1965, as amended, that authorizes federal loan, work, and grant education financial assistance programs.

**Totally and Permanently Disabled:** The condition of an individual who is unable to work and earn money due to an injury or illness that is expected to continue indefinitely or result in death.

**Trailer, Summer Term:** A summer term that comes at the end of a school's Scheduled Academic Year.

**Transfer:** For purposes of defining due diligence time frames, a transfer is any action (such as the sale of a loan) that results in a change of the system used to monitor or conduct collection activities on the loan.

**Treasury Bill: (T-bill)** A note or bill issued by the U.S. Treasury as legal tender for all debts.

**Treasury Offset:** An interception by the United States Treasury Department's Financial Management Service or a state agency of any payment of applicable federal funds (tax refunds, Social Security benefits, federal retirement benefits, etc.) or state funds otherwise due a borrower who has defaulted on a FFELP loan.

## U

**Unconsummated Loan:** Loan proceeds that the school returned to the lender prior to the borrower's having cashed the check, if an individual check, or the school having applied the proceeds to the student's account, if included in a master check or EFT transmission. This includes checks that may have been released by the school but remain uncashed by the 120th day following disbursement and EFT and master check transactions that have not been completed by the 120th day following disbursement.

**Undergraduate Student:** A student who is enrolled at a school in a course of study, at or below the baccalaureate level, that usually does not exceed four academic years, or is up to five academic years in length and is designed to lead to a first degree.

**Undue Hardship (Adversary Complaint) Petition:** A motion to have a loan discharged in a bankruptcy case on the grounds of undue hardship. See subsection 12.8.A.

**Unknown Telephone Number:** The lack of any telephone number assigned to a particular borrower, endorser, or reference.

**Unsubsidized Loan:** A non-need-based loan such as an unsubsidized Federal Stafford loan or a Federal PLUS loan. The borrower is responsible for paying the interest on an unsubsidized loan during in-school, grace, and deferment periods, in addition to repayment periods.

**U.S. Citizen or National:** The term "citizen" includes all native or naturalized persons who owe allegiance to the United States and are entitled to protection by it. The U.S. includes the fifty states, the District of Columbia, Guam, Northern Mariana Islands, Puerto Rico, and the Virgin Islands. The term "national" includes all U.S. citizens and citizens of American Samoa and Swain's Island.

## V

**Variable Interest Rate:** An interest rate that changes, usually annually, according to prescribed methods (see sections 7.4 and 7.5).

**Variable Interest Rate Conversion:** The conversion of a fixed interest rate to an annually variable interest rate, which carries a federally mandated cap.

**Verbal Request:** A request that is made orally, as opposed to in writing.

**Verification:** A school's procedure for checking the accuracy of information reported by the student on the FAFSA. Verification may include requesting a copy of the tax returns filed by the student and, if applicable, the student's parents. See subsection 6.6.A.

## W

**Week of Instruction:** Any period of 7 consecutive days in which the school provides at least one day of regularly scheduled instruction or examinations, or, after the last scheduled day of classes for a term or payment period, at least one day of study for final examinations. Instructional time does not include periods of orientation, counseling, vacation, or homework.

**Windfall Profits:** Rebate of excess interest for Stafford loans first disbursed before July 1, 1992, or first disbursed to a "new borrower" on or after July 23, 1992, and before October 1, 1992, as required by the Technical Amendments of 1993. If a loan's fixed interest rate exceeds the current average of bond equivalent rates of 91-day Treasury bills plus a factor (3.25% or 3.10%) for a particular quarter, the lender must calculate an adjustment to excess interest and rebate the difference to the borrower's account based on a federally prescribed formula. See "Handling Excess Interest Rebates" in subsection 9.9.C, and section H.2 of appendix H.

**Withdrawal Date:** The date the student withdraws, as determined by the school. The requirements that the school must follow for determining the student's withdrawal date depend upon whether the school is required to take attendance. See section 4.6.

**Write-Off:** A loan amount for which there has been a total cessation of collection activity.

# H History of the FFELP and the *Common Manual*


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H.2 History of Excess Interest Rebates and Variable Interest Rate Conversions ..... 66

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# Index of History Categories

This appendix contains information on topics pertinent to the history of the FFELP and the *Common Manual.* Under each applicable date in this history, these topics are listed alphabetically by category. Following is an index of the categories under which these topics have been organized.


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Additional unsubsidized Stafford funding
Aggregate loan limit
Annual loan limit
Audit
Authorizations and certifications
Bankruptcy
Blanket guarantee
Borrower dispute
Child-care provider loan forgiveness
Claim filing requirements
Claim payment
Claim repurchase/recall
Claims – returned and refiled
Closed school loan discharge
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Common forms
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Cost of attendance
Credit balance
Credit bureau reporting
Cure
Data matches
Death discharge
Deferment
Delivering loan funds
Disability discharge (total and permanent)
Disbursements rules
Disclosure requirements
Due diligence
Electronic processing requirements
Eligibility – borrower and student
Eligibility – lender
Eligibility – school
Endorser
Entrance counseling
Estimated financial assistance
Exceeding loan limits
Exceptional performance
Excess interest rebate
Exit counseling
FAFSA
False certification loan discharge
Federal reporting
Financial aid transcript (FAT)
Financial responsibility standards (school)
Forbearance
Foreign school
Grace period
Guarantee fee
Guarantee transfer
Holder
Inducements
Insurance
Interest payment and capitalization
Interest rates
Interest subsidy
Late disbursement/post-withdrawal disbursement
Leave of absence
Lender fee
Lender of Last Resort
Loan amount
Loan amount – adjustment
Loan certification
Loan guarantee
Loan sales and transfers
Loan types
Need analysis
Negotiated rulemaking
Notification – borrower and student
NSLDS
Origination fee
Payment application
Payment period
Period of enrollment
PLUS credit check
Post-deferment grace period
Program Participation Agreement
Record retention
Refinancing (PLUS and SLS loans)
Refunds
Rehabilitation of defaulted loan
Reinstatement of Title IV eligibility
Reinsurance
Reissued disbursements
Repayment start
Repayment terms
Return of Title IV funds
Special allowance
Social Security number documentation/reporting
Status changes and reporting
Statute of limitations
Summer bridge extension
Teacher loan forgiveness
Third-party servicer
Unpaid refund discharge
Voluntary Flexible Agreement

# H.1
# History of the FFELP and the *Common Manual*

Today's education loan program is the result of a long evolutionary process that began with the enactment of the Higher Education Act in 1965. By law, the Act must be reviewed and reauthorized every 5 years, and the review often results in changes (amendments) to the law. Some reauthorizations have resulted in subtle changes; others have dramatically revised the program. Following is a chronology of milestones in the evolution of education loans. This information pertains to Federal Stafford (once called GSL) loans unless otherwise specified.

## 1965

### November 8, 1965

The Higher Education Act of 1965 is signed into law. The Act requires the periodic reexamination and reauthorization of its congressional mandate. Reauthorizations must occur every 5 years, or loans may no longer be made under the program.

*Interest subsidy:* The new law provides an in-school interest subsidy of 5%, paid by the federal government for families with annual incomes less than $15,000. A 3% interest subsidy is paid for periods during which the loan is in repayment. Nonsubsidized loans are available for students with annual family incomes of more than $15,000.

## 1967

### July 2, 1967

*Aggregate loan limit:* Aggregate loan limits are increased to $9,000.

*Annual loan limit:* Annual loan limits are increased to $1,500.

### August 10, 1967

*Interest rates:* Interest rates increase to 6% for families earning less than $15,000 in annual income.

*Loan guarantee:* The guarantee amount is increased from 80% to 90% of unpaid principal and interest.

## 1968

### August 3, 1968

*Interest rates:* Interest rates increase from 6% to 7% for families with less than $15,000 annual income.

### October 16, 1968

*Eligibility – lender:* Interstate lenders are permitted to make loans under the Federally Insured Student Loan Program (FISLP).

### December 15, 1968

*Interest subsidy:* Interest subsidy for loans in repayment is eliminated.

## 1969

### August 1, 1969

*Special allowance:* Special allowance is authorized for lenders to ensure they receive a market-rate yield on their student loans. Special allowance yields no more than 3% per year based on the outstanding principal balance of eligible loans.

## 1972

### June 23, 1972

Amendments to the Higher Education Act are signed into law. The Student Loan Marketing Association (Sallie Mae) is authorized.

### July 1, 1972

*Interest subsidy:* Interest subsidy is determined based on an evaluation of family income and resources.

*Need analysis:* A needs test is established.

### August 18, 1972

*Interest subsidy:* Interest subsidy is reinstated for students whose families have annual incomes of $15,000 or less.

### October 1, 1972

*Repayment terms:* The maximum repayment period of 63 months is increased to 120 months.

## 1973

### March 1, 1973

*Interest subsidy:* Eligibility for interest subsidy is determined by an evaluation of family income and resources.

*Need analysis:* Need analysis is required again.

### June 1, 1973

*Aggregate loan limit:* Aggregate loan limits increase to $7,500 for undergraduate students and $10,000 for graduate students (including undergraduate aggregates).

*Annual loan limit:* Annual loan limits increase to $2,500 for third- and fourth-year undergraduate students and for graduate students. Loan limits are $1,000 for first-year students and $1,500 for second-year students.

## 1974

### June 2, 1974

*Eligible borrower:* Undergraduate students enrolled at least half time, but less than full time, are eligible borrowers.

*Interest subsidy:* Eligibility for interest subsidy is returned to students whose families have annual incomes of $15,000 or less.

*Need analysis:* Need analysis is required for families earning more than $15,000 and for loan amounts exceeding $2,000.

## 1976

### March 1, 1976

*Annual loan limit:* Graduate students may receive a student loan of up to $2,500.

*Eligibility – borrower and student:* Graduate students enrolled at least half time, but less than full time, are eligible borrowers.

### October 1, 1976

*Deferment:* “New borrowers” are eligible for a one-year unemployment deferment, which is subsidized if the borrower otherwise qualifies for interest subsidy.

*Disbursement rules:* Disbursement checks must be endorsed by the borrower. Lenders may make checks copayable to both the borrower and the school. Multiple disbursement of loan funds is encouraged.

*Interest subsidy:* Lenders are permitted to bill for interest subsidy on the full loan amount from the date of the first disbursement (even if the second disbursement was not made yet), provided the lender has signed a Multiple Disbursement Agreement with the Department.

*Special allowance:* Lenders are permitted to bill for special allowance on the full loan amount from the date of the first disbursement (even if the second disbursement was not made yet), provided the lender has signed a Multiple Disbursement Agreement with the Department.

### October 12, 1976

Amendments to the Higher Education Act are signed into law, with provisions effective January 1, 1977.

### November 12, 1976

*Need analysis:* For loan terms beginning on or after November 11, 1976, need analysis is required only for subsidized loans for borrowers whose families report adjusted gross incomes of $25,000 or more, regardless of the loan amount being requested.

## 1977

### January 1, 1977

*Special allowance:* Special allowance is authorized for all loans disbursed between November 8, 1965, and August 1, 1969, for which balances remained outstanding. Special allowance payments for these loans are in addition to payments for other loans previously considered eligible for special allowance.

### May 20, 1977

*Aggregate loan limit:* For loan periods beginning on or after July 1, 1977, aggregate limits are increased to $7,500 for undergraduate borrowing and $15,000 for cumulative graduate and undergraduate borrowing.

*Annual loan limit:* For loan periods beginning on or after July 1, 1977, annual loan limits are increased to $2,500 for undergraduate students and $5,000 for graduate and professional students.

### September 30, 1977

*Bankruptcy:* Bankruptcy discharge of student loans is prohibited for the first 5 years after the borrower graduates or withdraws from school, unless the borrower proves that payment of the loan would present an undue hardship.

### December 1, 1977

*Special allowance:* Special allowance payments become a derivative of the Treasury-bill formula, yielding no more than 5% annually based on a quarterly determination.

## 1978

### November 1, 1978

*Deferment:* The rehabilitation deferment is established for borrowers in rehabilitation training programs for disabled individuals.

*Interest subsidy:* All loans disbursed on or after November 1, 1978, qualify for interest benefits regardless of family income.

*Special allowance:* Special allowance is paid on both the subsidized and nonsubsidized loans.

### November 6, 1978

*Bankruptcy:* The prohibition against the bankruptcy discharge of student loans that have been in repayment for less than 5 years is repealed.

## 1979

### July 1, 1979

*Special allowance:* The annual cap on special allowance is eliminated. Yield floats with the Treasury-bill (T-bill) formula (T-bill plus 3.5%).

### October 1, 1979

*Bankruptcy:* Bankruptcy Reform Act is effective. The prohibition against the discharge of a student loan in bankruptcy during the first 5 years of repayment is reinstated. Loans may be discharged in the first 5 years of repayment only if the repayment of the loan would present an undue hardship to the borrower.

## 1980

### November 3, 1980

Education Amendments of 1980 are signed; provisions are effective January 1, 1981.

*Special allowance:* Special allowance paid on loans made or purchased with tax-exempt funds is reduced by half, effective for loans disbursed on or after October 1, 1980.

## 1981

### January 1, 1981

*Aggregate loan limit:* Aggregate loan limits are revised to $15,000 for independent undergraduate students, $12,500 for dependent undergraduate students, and $25,000 for graduate students (including undergraduate loans).

*Annual loan limit:* Annual loan limits increase to $3,000 per year for independent undergraduate students, $2,500 for dependent undergraduate students, and $5,000 for graduate students.

*Deferment:* Deferments are authorized for medical internship or residency, service in a nonprofit agency, service as an officer in the Commissioned Corps of Public Health, and temporary total disability.

*Grace period:* Loans to “new borrowers” with loan periods beginning on or after January 1, 1981, and applicable interest rates of 9% are eligible for a 6-month grace period.

*Interest rates:* The applicable interest rate is 9% for “new borrowers” with loan periods beginning on or after January 1, 1981. New PLUS and ALAS loans have an applicable interest rate of 9%.

*Loan types:* Parental Loans for Undergraduate Students (PLUS loans) and Auxiliary Loans for Students (ALAS) loans are established.

*Post-deferment grace period:* Loans with a deferment end date on or after January 1, 1981, are eligible for a 6-month post-deferment grace period.

### August 23, 1981

*Origination fee:* Effective for subsidized loans on which the lender provided the borrower’s promissory note on or after August 23, 1981, an origination fee of 5% is assessed. The fee may be deducted from the loan’s proceeds by the lender and must be paid to the Department quarterly via the ED Form 799.

### October 1, 1981

*Post-deferment grace period:* Post-deferment grace periods are eliminated for loans first disbursed on or after October 1, 1981.

*Need analysis:* Need analysis is reinstated for borrowers with annual family incomes exceeding $30,000.

### October 1, 1981

*Aggregate loan limit:* Aggregate loan limits are $12,500 for undergraduate students and $25,000 for graduate students (including undergraduate loans).

*Annual loan limit:* Annual loan limits are revised to remove the difference between independent and dependent borrowers. Limits of $2,500 and $5,000 apply for undergraduate and graduate students, respectively. ALAS loan limits for undergraduate students permit an annual maximum of $2,500 through combined GSL and ALAS borrowing. Graduate and professional students may borrow up to $3,000 annually in ALAS, in addition to their $5,000 GSL maximum.

*Interest rates:* PLUS/ALAS interest rate increases to 14%.

*Repayment terms:* The minimum monthly payment amount increases from $30 to $50 for loans first disbursed on or after October 1, 1981.

*Special allowance:* Nonsubsidized loans disbursed on or after October 1, 1981, are no longer eligible for special allowance. Special allowance for loans first disbursed on or after October 1, 1981, is calculated without rounding up to the nearest eighth of a percent.

## 1982

### November 1, 1982

*Interest rates:* PLUS/ALAS interest rates are reduced to 12% for loans first disbursed on or after November 1, 1982.

## 1983

### July 24, 1983

*Eligibility – borrower and student:* Students must meet Selective Service Registration requirements to receive Title IV funds on or after July 24, 1983.

### August 1, 1983

*Eligibility – borrower and student:* For applications certified on or after August 1, 1983, the financial aid administrator may not certify an application for any student unless the Statement of Registration Compliance is presented with the application.

### August 15, 1983

*Deferment:* PLUS borrowers with loans first disbursed on or after August 15, 1983, are not eligible for deferment of their loans.

### September 13, 1983

*Interest rates:* The applicable interest rate for new GSL borrowers with loan periods beginning on or after September 13, 1983, is reduced to 8%.

## 1986

### March 1, 1986

*Origination fee:* Loans first disbursed on or after March 1, 1986, and before October 1, 1986, are subject to the provisions of sequester. Origination fees are increased to 5.5% of the loan's principal balance.

*Special allowance:* Due to the sequester, lenders must collect a reduced special allowance on new loans for four consecutive reporting quarters beginning with the quarter in which the loan was first disbursed.

### April 7, 1986

The Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985 is signed into law.

*Consolidation loans:* Consolidation loans are authorized to permit a borrower to combine multiple obligations into a single debt.

*Credit bureau reporting:* Credit bureau reporting is required for all lenders and guarantors.

*Disbursement rules:* GSL and ALAS disbursement checks must be mailed directly to the school.

*Default:* The statutory default date is extended from 120 days delinquent to 180 days delinquent.

*Eligibility – borrower and student:* Schools must determine a student's eligibility for Pell Grant funding before certifying a GSL application.

*Interest rates:* The interest rate for the newly authorized Consolidation loans is the greater of 9% or the weighted average interest rate of the loans being consolidated, rounded to the nearest whole percent, effectively establishing a 9% minimum interest rate.

*Lender of Last Resort:* Guarantors must ensure that a Lender of Last Resort Program is available to borrowers in each state.

**May 15, 1986**

*Eligibility – borrower and student:* Schools, lenders, and guarantors are prohibited from certifying, approving, or guaranteeing an application if the borrower advises that he or she has a student loan in default.

**July 1, 1986**

*Disbursement rules:* All GSL and ALAS loans first disbursed on or after July 1, 1986, must be multiply disbursed if the loan amount is $1,000 or more and there are more than 180 days remaining in the loan period after the date of first disbursement.

*Eligibility – borrower and student:* Students may not receive additional Title IV assistance if they have defaulted on a Title IV loan.

*Origination fee:* The origination fee must be deducted proportionately from each disbursement of a GSL loan.

**October 17, 1986**

The Higher Education Amendments of 1986 are signed into law and reauthorize the program through 1991.

*Aggregate loan limit:* The aggregate loan limit for PLUS or SLS loans is $20,000.

*Annual loan limit:* The annual loan limit for PLUS or SLS loans is $4,000.

*Deferment:* Eligibility for an unemployment deferment is extended from 12 to 24 months for GSL, SLS, and PLUS loan borrowers.

*Disbursement rules:* Multiple disbursements are no longer required for SLS loans. GSL multiple disbursement requirements are revised. Lenders must disburse loans in two or more installments if the loan amount is more than $1,000 or if the loan period for which the loan is intended ends more than 180 days from the scheduled date of the first disbursement. The second disbursement may not be made before the midpoint of the period of enrollment, except as necessary to coincide with the start of the next quarter, trimester, or semester. Loans to borrowers attending foreign schools are exempt from multiple disbursement requirements.

*Eligibility – borrower and student:* Parents may borrow PLUS funds for dependent undergraduate or dependent graduate students.

*Exit counseling:* Schools must perform exit counseling for all student borrowers.

*Interest payment and capitalization:* Interest accruing during in-school or other deferred periods on PLUS and SLS loans is payable in monthly or quarterly installments or may be capitalized no more frequently than quarterly.

*Interest rates:* The PLUS/SLS interest rate becomes a variable rate, not to exceed 12%.

*Loan types:* The ALAS Program is replaced with the SLS Program. PLUS and SLS loans are to be administered under separate programs.

*Need analysis:* GSL applications are subject to uniform methodology and need analysis, regardless of family income.

*Refinancing (PLUS and SLS loans):* Borrowers may refinance PLUS or ALAS/SLS loans at the new variable interest rate.

*Reinsurance:* Guarantors are required to pay the Department a reinsurance fee on loans guaranteed to help defray the cost of defaults.

*Repayment terms:* The 15-year limit on the repayment term of a GSL loan is eliminated.

**November 16, 1986**

*Special allowance:* Special allowance for loans with periods of enrollment beginning on or after November 16, 1986, is reduced to the T-bill plus 3.25%.

**December 26, 1986**

*Deferment:* Unemployment deferment requests must list three contacts and be reaffirmed every 3 months. An unemployment deferment may be backdated no more than 60 days from the date on which the lender receives the form. Other deferments may be backdated no more than 6 months from the date the lender receives the form.

*Delivering loan funds:* Schools may credit a student's loan proceeds to his or her account no more than 21 days before the first day of the period of enrollment for which the funds are intended. Checks may be released to the borrower no more than 10 days before the start of the period of enrollment for which the funds are intended.

*Origination fee:* Lenders must refund origination fees for disbursements on which the loan proceeds are returned or the disbursement is paid in full within 120 days of the date on which the funds are disbursed.

*Refunds:* A school must make refunds to students within 30 days of the date the school determines that the student is last enrolled at least half time.

## 1987

### January 1, 1987

*Aggregate loan limit:* Aggregate loan limits increase to $17,250 for undergraduate borrowing and $54,750 for combined undergraduate and graduate borrowing.

*Annual loan limit:* Annual loan limits increase to $2,625 for the first two years of undergraduate study, $4,000 for any subsequent years of undergraduate study, and $7,500 for graduate study.

### March 10, 1987

*Bankruptcy:* Lenders must file a bankruptcy claim no more than 30 days after learning that a borrower has filed for bankruptcy protection.

*Disclosure requirements:* Lenders must provide a "Plain English Disclosure" to borrowers before disbursing loan funds for periods of enrollment beginning on or after January 1, 1987.

*Due diligence:* New due diligence requirements are effective for loans with a first day of delinquency on or after March 10, 1987.

### June 3, 1987

The Higher Education Technical Amendments of 1987 are signed into law.

*Disbursement rules:* Disbursements for students attending foreign schools may be made directly to the borrower. Multiple disbursement requirements are returned to previous levels, so that the lender must disburse any loan of $1,000 or more in two or more installments.

### June 26, 1987

*Interest rates:* Interest may not be calculated on any loan entering repayment using the Rule of 78s.

### July 1, 1987

*Deferment:* New deferment provisions are introduced for "new borrowers" with loans made for periods of enrollment beginning on or after, or for loans disbursed on or after, July 1, 1987. Deferments are made available for periods of at least half-time enrollment (for borrowers with another GSL or SLS loan for the loan period for which they are applying for the deferment), temporary total disability of dependents or spouses, parental leave, and mothers entering or reentering the work force. PLUS loans may be deferred based on the status of the dependent student for whom the parent has obtained a loan. All PLUS loans for that parent may be deferred based on the status of a single dependent student. New PLUS loans disbursed for periods of enrollment beginning on or after July 1, 1987, are eligible for new deferment types: half-time enrollment deferment if the parent or dependent student for whom the parent borrowed is enrolled at least half time, National Oceanic and Atmospheric Administration (NOAA) Corps deferment, teacher shortage deferment, parental leave deferment, and working mother deferment.

*Eligibility – borrower and student:* Students must be enrolled in a degree or certificate program to receive GSL, SLS, or PLUS loan funds if the funds are intended for periods of enrollment beginning on or after July 1, 1987. A student enrolled in a course of study that is a prerequisite to a degree or certificate program is eligible for one loan for a 12-month period. A dependent student is eligible for an SLS loan if the financial aid administrator determines that exceptional circumstances preclude the parent(s) from borrowing under the PLUS program.

*Guarantee fee:* All loans are subject to a guarantee fee of no more than 3% of the principal balance, collectable by the guarantor.

*Interest rates:* PLUS and SLS loans first disbursed on or after July 1, 1987, accrue interest at a variable rate that is subject to change each July 1.

*Special allowance:* Lenders receive special allowance payments when the T-bill rate plus applicable factor exceeds 12%.

### October 20, 1987

*Origination fee:* GSL loans are placed under sequester. Origination fees are increased to 5.5%.

*Special allowance:* Due to the sequester, special allowance yields are reduced for new loans for the first four reporting quarters following the one in which the loan was first disbursed.

### December 26, 1987

*Origination fee:* The sequester action is rescinded retroactive to October 20, 1987. Lenders are required to refund to borrowers the additional 0.5% origination fee that was collected under the terms of the sequester.

## 1988

### March 11, 1988

*Cure:* The Department publishes cure procedures for violations of due diligence or timely filing provisions.

### July 1, 1988

*Excess interest rebate:* For loans accruing interest at the new "split 8%/10%" interest rates, if the T-bill rate plus 3.25% is less than the applicable 10% rate, the lender is required to return (rebate) earnings to the borrower at the end of the year in which those "excess" earnings are received.

*Interest rates:* Interest rates for "new borrowers" with Stafford loans first disbursed for periods of enrollment beginning on or after July 1, 1988, are 8% for the in-school and grace periods, and for the first 48 months of repayment. Interest rates increase to 10% on the first day of the 49th month of repayment.

*Interest subsidy:* Lenders may no longer use the average quarterly balance in billing for interest benefits.

*Loan types:* The GSL program is renamed the Stafford Loan Program.

*Special allowance:* Lenders may no longer use the average quarterly balance in billing for special allowance.

### July 18, 1988

*Eligibility – borrower and student:* Students enrolled at least half time in a teacher certificate program are eligible to borrow up to $4,000 per year in Stafford loans.

### August 17, 1988

*Eligibility – borrower and student:* For loans on which the application is certified on or after August 17, 1988, schools must determine the applicant's eligibility for Pell Grants and Stafford loans before certifying an SLS application. If the borrower is eligible for a Pell Grant or Stafford loan, he or she must apply for it.

### October 1, 1988

*Disbursement rules:* SLS loans first disbursed on or after October 1, 1988, must be multiply disbursed if the loan balance is more than $1,000 or the loan period ends more than 180 days after the date of the first loan disbursement.

*Repayment start:* SLS loan repayment begins no more than 60 days after the date the loan is fully disbursed.

## 1989

### July 20, 1989

*Delivering loan funds:* Schools with cohort default rates of more than 30% must delay delivery of loan funds to "new borrowers" for at least 30 days following the first day of the period of enrollment for which the loan is intended.

*Refunds:* A school must make refunds within 60 days of the date the school determines that the student has dropped to less than half-time attendance.

### August 24, 1989

*Entrance counseling:* Schools must provide entrance counseling for all first-time borrowers.

### October 1, 1989

*Origination fee:* Loans first disbursed on or after October 1, 1989, but before January 1, 1990, are subject to sequester. Origination fees of 5.5% must be paid to the Department.

*Special allowance:* Due to the sequester, special allowance is reduced for new loans for the first four reporting quarters, beginning with the quarter in which the loan was first disbursed.

### November 21, 1989

Department of Labor, Health and Human Services, Education, and Related Agencies Appropriations Act of 1990 is signed into law.

*Refunds:* Schools with cohort default rates exceeding 30% must implement a pro rata refund policy for all Title IV aid recipients.

### December 19, 1989

The Omnibus Budget Reconciliation Act of 1989 (OBRA) is signed into law.

*Delivering loan funds:* Schools must withhold and return to the lender any disbursement exceeding the amount of the assistance for which the student is eligible. Provisions are applicable to Stafford and SLS loan proceeds not delivered to students as of December 19, 1989, for periods of enrollment beginning on or after January 1, 1990. Schools must delay the delivery of SLS proceeds to first-time borrowers who are first-year students until 30 days after the start of the loan period for which they are intended.

*Late disbursement/post-withdrawal disbursement:* For disbursements made on or after December 19, 1989, for loan periods beginning on or after January 1, 1990, late second disbursements of Stafford and SLS loans are prohibited. For loans delivered on or after December 19, 1989, for periods of enrollment beginning on or after January 1, 1990, schools may not deliver late first disbursements of SLS proceeds if the student did not complete the first 30 days of the period of enrollment for which the funds are intended.

## 1990

### January 1, 1990

*Annual loan limit:* Annual loan limits for SLS loans are reduced for first-time borrowers. SLS annual loan limits of $4,000 are restricted to periods of one academic year or 9 months, whichever is longer. SLS annual limits are prorated at $2,500 for borrowers who attend at least two-thirds of an academic year but less than a full academic year; $1,500 for borrowers who attend between one-third and two-thirds of an academic year; and to $0 for borrowers who attend less than one-third of an academic year.

*Deferment:* Individuals serving in medical internships and residencies, except those serving in dental programs, are ineligible for in-school deferments.

*Disbursement rules:* Lenders must delay the disbursement of SLS funds. For loans guaranteed on or after January 1, 1990, lenders must make Stafford and SLS loans in multiple disbursements, regardless of the loan amount or the length of the period of enrollment for which the funds are intended.

*Eligibility – borrower and student:* Borrowers may no longer borrow Stafford or SLS loans for enrollment in an internship or residency program.

*Federal reporting:* Lenders must use the newly revised ED Form 799 to file for special allowance and interest benefits, pay origination fees, and provide information that previously was included in the annual Call Report. Any filing for benefits on or after January 1, 1990, must be on the new form and in the new format, regardless of the quarter for which it is applicable.

*Forbearance:* Lenders must grant forbearance to interns and residents.

*Loan certification:* Schools with cohort default rates of 30% or more may no longer certify SLS loan applications.

### March 1, 1990

*Disbursement rules:* For loans certified on or after March 1, 1990, with loan periods beginning on or after January 1, 1990, schools must determine the disbursement dates for the loans, and lenders may not disburse funds before the first date on which the school has requested disbursement of the funds.

### June 5, 1990

*Refunds:* Schools with cohort default rates of 30% or more must institute a pro rata refund policy.

### November 5, 1990

The Omnibus Budget Reconciliation Act (OBRA) of 1990 is signed into law.

*Bankruptcy:* Student loans are determined to be nondischargeable for borrowers filing for protection under Chapter 7 or 13 bankruptcy within 5 years of the date the loan entered repayment, excluding periods of deferment and forbearance.

*Due diligence:* For delinquencies beginning on or after November 5, 1990, guarantors must provide preclaim assistance on accounts that are less than 120 days delinquent and must provide supplemental preclaim assistance (SPA) on loans that are more than 120 days delinquent. The Department compensates the guarantor for each loan on which SPA is requested and for which the default claim is not filed within 150 days.

*Loan certification:* The minimum loan period for SLS loans is reduced to 7 months or the length of the school's academic year, whichever is longer.

## 1991

### January 1, 1991

*Delivering loan funds:* Schools must delay for 30 days the release of Stafford loan funds to borrowers who are entering the first year of an undergraduate program and who have not previously obtained a Stafford or SLS loan.

*Eligibility – borrower and student:* Students applying for Title IV funds must have a high school diploma or GED, or must pass an independently administered ability-to-benefit test for periods of enrollment beginning on or after January 1, 1991.

### April 9, 1991

*Post-deferment grace period:* Military personnel serving in Operations Desert Shield/Desert Storm are authorized to receive a 6-month post-deferment grace period following either a period of military deferment, or a period of in-school deferment if the borrower previously received a military deferment for such service. This one-time benefit is available for the period from April 9, 1991, to September 30, 1997.

*Statute of limitations:* The statute of limitations for enforcement of guaranteed student loans is eliminated.

### May 28, 1991

*Bankruptcy:* Student loans that are in repayment for 7 years or less from the date the loan first entered repayment through the date of a bankruptcy action—excluding periods of deferment and/or forbearance—are considered to be nondischargeable under bankruptcy provisions.

### July 1, 1991

*Eligibility – school:* Schools with cohort default rates of 35% or more for the most recent three fiscal years for which rates are available are ineligible to participate in the GSL Program. In Fiscal Year 1993, the rate drops to 30%.

### November 15, 1991

The Emergency Unemployment Compensation Act of 1991 is signed into law. However, provisions are never enforced based on guidance received from the Department, pending regulations. The Higher Education Amendments of 1992 later repeal all but two provisions applicable to student loans.

## 1992

### July 23, 1992

The Higher Education Amendments of 1992 are signed into law.

*Aggregate loan limit:* Aggregate loan limits on Stafford loans are revised to $23,000 for undergraduates and $65,500 for graduate students (including undergraduate loans). SLS aggregate loan limits are revised to $23,000 for undergraduate borrowing and $73,000 for combined graduate and undergraduate borrowing. These provisions became effective October 1, 1992.

*Annual loan limit:* The annual loan limit on Stafford loans of $2,625 for the first year of full-time undergraduate study must be prorated for some students. Annual loan limits for SLS loans of $4,000 for first- and second-year full-time enrollment must be are prorated for some students. These provisions became effective October 1, 1992.

*Audit:* Guarantors must require an annual compliance audit from each lender in the FFELP. The lender's first audit under this requirement is to have covered the lender's first fiscal year that began after July 23, 1992. Submission of the audit report is required within six months after the end of the audit period.

*Closed school loan discharge:* Loans may be forgiven if the school for which the borrower obtained the loan closed before the borrower's program of study was complete.

*Common forms:* The Department, in cooperation with industry participants, is required to develop common loan applications and promissory notes, deferment forms, and reporting formats.

*Exceptional performance:* A program to encourage superior servicing performance for lenders, servicers, and guarantors is initiated. For lenders and servicers that receive an exceptional performer designation, guarantors pay 100% of the principal and interest due on loans filed as claims during the period the lender or servicer is designated. Lenders or servicers are not penalized for inadvertent omissions of due diligence or timely filing violations. For guarantors designated as exceptional performers, the Department pays 100% of the applicable rate payable on loans filed for reinsurance during the period the guarantor is designated (note that criteria for exceptional performers are not defined in regulation until July 1995).

*Excess interest rebates:* Lenders must rebate excess interest on Stafford loans first disbursed at a fixed rate on or after July 23, 1992, regardless of that rate. Rebates to "new borrowers" with loans at the 8%/10% rate are applicable when the T-bill rate plus 3.25% is less than the applicable interest rate. Rebates are applicable for the new 8%/10% loan only when the loan reaches the 10% accrual period. For loans first disbursed to borrowers with outstanding loans on or after July 23, 1992, the rebate is applicable when the T-bill rate plus 3.10% is less than the loan's applicable interest rate. For second or subsequent loans first disbursed at 8%/10% on or after July 23, 1992, the rebate is applicable both to the 8% period and the 10% period.

*False certification:* Loans may be forgiven if the school falsely certified the loan application.

*Forbearance:* Borrowers participating in medical internship or residency programs may request and the lender must grant a period of forbearance when the borrower has expended his or her entire deferment period for internship or residency. Lenders may extend forbearance on loans without a borrower's request (grant administrative forbearance) in prescribed instances, such as a period of delinquency preceding an authorized period of deferment.

*Interest subsidy:* The lender may not bill for interest on a subsidized Stafford loan that is disbursed by check earlier than 10 days before the first disbursement of the loan or earlier than 3 days before the first disbursement of funds by EFT. In this case only, the term "disbursement" is intended to mean delivery to the borrower.

*Loan sales or transfers:* Borrowers must be notified of the sale or transfer of their loan to another holder or servicer no more than 45 days from the date the new holder or servicer obtains legal right to receive payments on the loan. Specifically defined information must be included in notices to the borrower, and the notice must be provided by both the seller and holder, or by the previous servicer and new servicer. Lenders may not sell or transfer ownership of a loan that is not yet fully disbursed if the transaction would cause a change in the party to which the borrower will send payments.

*Loan types:* The GSL Program is renamed the Federal Family Education Loan Program (FFELP). The Stafford Loan Program is renamed the Federal Stafford Loan Program, the SLS Program is renamed the Federal SLS Program, and the PLUS Loan Program is renamed the Federal PLUS Loan Program.

*Negotiated rulemaking:* The Department is required to develop regulations from these amendments in a negotiated rulemaking process with the student loan industry and other interested participants.

*PLUS credit check:* Lenders must perform a credit check on PLUS loan applicants and may not make loans to borrowers determined to have adverse credit unless they determine that mitigating circumstances apply.

*Rehabilitation of defaulted loans:* All guarantors must provide for the rehabilitation of defaulted loans by the borrower's making 12 consecutive, on-time, reasonable and affordable payments. In addition, the borrower's defaulted loans must be purchased by an eligible lender.

*Reinstatement of Title IV eligibility:* A borrower may have his or her eligibility for additional Title IV funding reinstated if the borrower makes six consecutive, on-time, reasonable and affordable payments on his or her defaulted loan.

*Repayment terms:* The $600 joint minimum annual payment amount for married couples is deleted. A new clause advises that the minimum payment is the amount of interest that is due and payable. Lenders must offer to borrowers who have both Stafford and SLS loans the option of deferring the repayment start date of the SLS loans to coincide with the repayment start date of the Stafford loans. Interest on the SLS loans continues to accrue and is payable by the borrower in monthly or quarterly installments, or may be capitalized.

*Third-party servicer:* The Department is authorized to regulate third-party servicers.

### October 1, 1992

*Consummated loan:* For subsidized Stafford loans first disbursed on or after October 1, 1992, lenders may not bill the Department for interest or special allowance payments on loans for which the disbursement check is not cashed or the funds delivered by EFT are not delivered to the student within 120 days of the date of disbursement. Such loans are considered unconsummated.

*Delivering loan funds:* The school must confirm the eligibility of the dependent student for whom the parent is borrowing before delivering PLUS loan funds.

*Disbursement rules:* PLUS loans must be disbursed by EFT or by a check that is copayable to the borrower and the school and must be sent to the school.

*Interest rates:* Interest rates on Stafford loans are revised to a variable interest rate based on the 91-day T-bill rate plus 3.1%, capped at 9% for loans first disbursed to "new borrowers" who have no outstanding balance on any FFELP loan on or after October 1, 1992. Interest rates on SLS loans are revised to a variable rate, calculated at the 52-week T-bill rate plus 3.1%, capped at 11%. Interest rates on PLUS loans are revised to a variable rate based on the 52-week T-bill plus 3.1%, capped at 10%.

*Loan types:* Effective for periods of enrollment beginning on or after October 1, 1992, unsubsidized Stafford loans are authorized with provisions paralleling those for subsidized Stafford loans, except that interest during in-school, grace, and deferred periods is not paid by the Department. The program provides loans for students who do not qualify for a subsidized Stafford loan or who qualify for only a part of the annual subsidized loan amount. Borrowers pay a combined origination fee/guarantee fee of 6.5%, all of which is paid to the Department. Guarantors are prohibited from collecting guarantee fees on unsubsidized Stafford loans.

*Origination fee:* Lenders must charge SLS and PLUS loan borrowers an origination fee of 5% on all loans with first disbursements on or after October 1, 1992, with the fee being deducted proportionally from each loan disbursement.

## 1993

### January 1, 1993

*Consolidation loans:* Married couples may consolidate their loans into a single Consolidation loan if they agree to be jointly and severally liable for the obligation, regardless of future marital status. Effective for applications received on or after January 1, 1993, the Consolidation minimum loan amount is increased to $7,500 and periods during which the borrower qualifies for a deferment are subsidized. A Consolidation loan borrower may add other eligible loans to a preexisting Consolidation loan for a period of up to 180 days from the date the Consolidation loan is made.

*Repayment terms:* Lenders must offer Consolidation loan borrowers the option of repaying their loans with graduated or income-sensitive repayment provisions.

### February 1, 1993

*Special allowance:* Provisions for loans made or purchased with tax-exempt obligations are modified.

### April 16, 1993

*Common forms:* The Department issues a Dear Guaranty Agency Director Letter announcing the approval of the common application and promissory note that combines the Federal Stafford and Federal Unsubsidized Stafford or Federal SLS loan into a single form. Schools are required to use the common application and promissory note for loans certified on or after January 1, 1994.

### July 1, 1993

*Aggregate loan limit:* Aggregate loan limits for PLUS loans are effectively negated.

*Annual loan limit:* Stafford annual loan limits are revised to $3,500 for the second year of study. SLS annual loan limits for subsequent years of undergraduate enrollment (beyond the second year) are increased to $5,000 effective July 1, 1993. SLS annual limits for graduate and professional students are $10,000. Annual limits for PLUS loans are revised to the cost of attendance minus other aid, effective for loans first disbursed on or after July 1, 1993.

*Deferment:* For "new borrowers" on or after July 1, 1993, deferments are limited to in-school (including periods during which the borrower is enrolled at least half time), graduate fellowship or rehabilitation training, unemployment (not to exceed 36 months), and periods during which the borrower is experiencing economic hardship that would preclude making student loan payments. For PLUS loans first disbursed to "new borrowers" on or after July 1, 1993, borrowers may no longer defer their PLUS loan based on the status of the dependent student.

*Eligibility – schools:* For fiscal year 1993, schools with default rates exceeding 30% for the three most recent fiscal years for which data is available are not eligible to participate in the FFELP. For subsequent years, the default rate may not exceed 25%.

*Repayment terms:* Lenders must offer new SLS and Stafford loan borrowers graduated or income-sensitive repayment schedules.

### August 10, 1993

The Student Loan Reform Act of 1993, a part of the Omnibus Budget Reconciliation Act, is signed.

*Interest subsidy:* Consolidation loans made from applications received on or after August 10, 1993, are eligible for interest subsidy during authorized periods of deferment only if all underlying loans are subsidized Stafford loans.

*Loan types:* The Federal Direct Loan Demonstration Program authorized under the Higher Education Amendments of 1992 is replaced with an expanded pilot.

### October 1, 1993

*Annual loan limit:* Stafford annual loan limits are increased to $8,500 for graduate and professional students.

*Disbursement rules:* PLUS loans first disbursed on or after October 1, 1993, must be multiply disbursed under the same conditions as SLS loans.

*Lender fee:* Lenders must pay a 0.5% fee for all FFELP loans disbursed on or after October 1, 1993. This fee may not be passed on to the borrower. Lenders of Consolidation loans must pay the Department monthly consolidation fees of 1.05% of the total outstanding loan balance of Consolidation loans (principal and interest) made on or after October 1, 1993. This fee may not be passed on to the borrower.

*Loan guarantee:* Loans first disbursed on or after October 1, 1993, are insured at 98% of the principal and outstanding interest filed as a claim by the lender.

*Reinsurance:* The reinsurance fee paid by guarantors to the Department is eliminated for loans first disbursed on or after October 1, 1993. Loans first disbursed on or after October 1, 1993, are reinsured at a maximum of 98% of the principal and interest filed with the Department by the guarantor.

## 1994

### July 1, 1994

*Annual loan limit:* Loan limits for unsubsidized Stafford loans for independent students (and students whose parents are unable to receive a PLUS loan) are increased to $6,625 for first year enrollment (a $4,000 increase), $7,500 for second year enrollment (a $4,000 increase), and $10,500 for subsequent years of undergraduate enrollment (a $5,000 increase). Graduate annual loan limits are increased to $18,500 (a $10,000 increase). Borrowers are eligible for these increased limits to the extent that they exceed the amount of funds received under the subsidized Stafford Loan Program.

*Consolidation loans:* Consolidation loans are no longer subject to a minimum loan amount.

*Interest rates:* Interest rates for Stafford loans first disbursed on or after July 1, 1994, are variable rates, calculated at the T-bill rate plus 3.10%, capped at 8.25%. Stafford loan interest rates for "repeat borrowers" are no longer tied to the rate at which the borrower previously received his or her loan. Interest rates for PLUS loans are revised to the T-bill rate plus 3.1%, capped at 9%. The annual interest rate for Federal Consolidation loans made on or after July 1, 1994, and for which the lender received the consolidation application prior to November 13, 1997, is the weighted average rate of all loans included in the consolidation rounded up to the nearest whole percent. The 9% minimum annual interest rate is no longer applicable.

*Leave of absence:* Students in an approved leave of absence are considered to be withdrawn for purposes of calculating refunds and determining continuous in-school status. For deferment purposes, students are considered to be enrolled during the leave.

*Loan types:* The Federal SLS Loan Program is eliminated. As a result, independent undergraduate students (and dependent students whose parents are unable to obtain PLUS loans) are offered additional unsubsidized Stafford loan eligibility equal to the prior SLS annual and aggregate loan limits.

*Origination fee:* Origination fees for all FFELP loans first disbursed on or after July 1, 1994, are 3%. Guarantors are prohibited from collecting guarantee fees exceeding 1%. The combined origination/guarantee fee for unsubsidized Stafford loans is revoked.

*Repayment terms:* Repayment schedules for loans with original balances of less than $7,500 may not exceed 10 years.

### October 20, 1994

President Clinton signs into law (P.L. 103-382) the Improving America's School Act of 1994, which changes the record retention requirements for schools.

*Record retention:* All required records relating to a student or parent borrower's eligibility for, and participation in, the FFELP must be kept for 3 years after the end of the award year in which the student last attended the school. An award year is the period between July 1 of a given calendar year and June 30 of the following calendar year. In addition, a school must keep copies of all reports (such as its SSCRs) and forms used by the school to administer FFELP loans for 3 years after the end of the award year in which those records were submitted. Any records relating to a loan, claim, or expenditure questioned in an audit, program review, investigation, or other review must be retained until the later of the resolution of the question or the end of the retention period applicable to the record. Schools are encouraged to keep records longer than the minimum 3-

year period to aid in their defense of cohort default rate appeals, claims of false certification, or other borrower defenses. These requirements are effective for any record that meets the 3-year retention requirement on or after October 20, 1994.

## 1995

### March 1995

*Audit:* The Department publishes an audit guide on annual compliance audits. The following provisions are included in the initial instructions published with the audit guide for lenders:

- For initial audits, a lender with a fiscal year ending July 23 through December 31 is required to choose between having separate audits for fiscal years 1993 and 1994 or a combined audit for the two years.
- The initial audit for a lender with a fiscal year ending January 1 through July 22 must cover fiscal year 1994.
- A lender with a fiscal year ending January 1 through March 31 may choose to have a combined initial audit for fiscal years 1994 and 1995.

### July 1, 1995

*Bankruptcy:* Borrowers who have had previous FFELP loans discharged in bankruptcy are no longer required to reaffirm the old debt to be eligible to borrow additional FFELP funds.

*Deferment:* Eligibility criteria for the economic hardship deferment are revised. Regulations require that deferments be administered as borrower-specific provisions so that the borrower may use those deferment entitlements on which time limits are placed only for the maximum time frame on all their FFELP loans, regardless of when those loans are made. Thus, a borrower who receives a loan and defers it based on internship for 20 months, then takes a second loan, is eligible for only 4 months of internship deferment on that second loan.

*Exceptional performance:* Exceptional performer criteria are defined, permitting some lenders and lender servicers to obtain a performance rating that will result in their receiving 100% reimbursement on claims submitted—regardless of the disbursement date of the loans included in the claims.

*Interest rates:* Interest rates on Stafford loans are revised; lenders earn interest at one rate (T-bill plus 2.5%) during in-school, grace, and deferred periods, and a higher rate (T-bill plus 3.1%) during periods of repayment.

*Leave of absence:* Leave of absence provisions are reinstated, but are limited to no more than a 60-day period. The student is considered to be enrolled for purposes of enrollment verification and refunds. For a one-year period—July 1, 1994, through July 1, 1995—students in an approved leave of absence were considered to be withdrawn for purposes of calculating refunds and determining continuous in-school status. For deferment purposes, students were considered to have remained enrolled during the leave.

*PLUS credit check:* A PLUS loan applicant with adverse credit history may obtain a creditworthy endorser to receive a PLUS loan.

*Origination fee:* Loans on which origination fees are not paid promptly by the originating lender are deemed to be non-reinsured. The lender or holder may not collect interest benefits or special allowance on the loans.

*Repayment start:* Lenders may offer a postponement of repayment start on SLS loans that is consistent with the grace on a borrower's Stafford loan. Previously, borrowers with both Stafford and SLS loans entering repayment could postpone the beginning of their SLS repayment only for 6 months without requesting a forbearance for the additional months that coincided with their Stafford grace period.

*Special allowance:* Special allowance rates on Stafford loans are revised; lenders earn interest at one rate (T-bill plus 2.5%) during in-school, grace, and deferred periods, and a higher rate (T-bill plus 3.1%) during periods of repayment.

### September 30, 1995

*Audit:* A lender must complete its initial audit (or audits) by September 30, 1995. If the lender is required to submit an audit report, the report must be submitted to the Department by September 30, 1995. The deadline for the completion of the audit is extended to June 30, 1996, for any audit period in which a lender originated or held FFELP loans totaling $5 million or less.

### November 29, 1995

The Department publishes final regulations on the Equity in Athletics Disclosure Act, effective July 1, 1996.

### December 1, 1995

The Department publishes final regulations on default prevention, parity with the FDLP, the Student Right-To-Know Act, regulatory reform, and ability-to-benefit, effective July 1, 1996.

## 1996

### March 1, 1996

Dear Colleague Letter 96-G-287/96-L-186 lifts the Department's waiver of enforcement of the lender due diligence provisions in 34 CFR 682.411, published in the December 18, 1992, *Federal Register* and clarifies policy changes pertaining to lender due diligence.

### April 1, 1996

The *Common Manual—Unified Student Loan Policy*, which contains both federal and guarantor policies, is adopted by 23 guarantors.

### July 1, 1996

*Ability to benefit:* Ability-to-benefit (ATB) students may receive Title IV funds if they obtain passing scores on independently administered tests approved by the Department; obtain passing scores on Department-approved state tests; or enroll in schools that participate in state processes that have been approved by the Department. This provision is effective for loan applications certified for the 1996–97 award year and thereafter.

*Aggregate loan limit:* For purposes of determining if a borrower has exceeded the aggregate loan limit, a school or lender may make certain assumptions about the underlying Stafford loans (subsidized vs. unsubsidized) in a Consolidation loan.

*Annual loan limit:* For loan periods beginning on or after July 1, 1996, certain health profession students who attend eligible HEAL participating schools and who have not borrowed under the HEAL program prior to October 1, 1995, are eligible to borrow unsubsidized Stafford loans in excess of annual and aggregate limits. To be eligible, a school must have disbursed HEAL loans in federal fiscal year 1995 (October 1, 1994, through September 30, 1995) and must not have subsequently withdrawn from the HEAL program.

*Bankruptcy:* If a borrower files for bankruptcy, a lender should not make any disbursement on any loan for which the borrower applied and that is approved before the borrower's bankruptcy filing. Any funds disbursed but not yet delivered by the school should be recalled. Loans scheduled to be disbursed after the date of the bankruptcy filing should be canceled. These changes apply to disbursements made on or after July 1, 1996.

Any period of administrative forbearance that is applied in conjunction with a cure period must be included in the calculation of the 7-year repayment period for the purpose of determining dischargeability of a loan in bankruptcy. If a bankruptcy claim is not filed in a timely manner, a lender need not perform cure activities. The lender may consider a loan to have regained reinsurance if the lender is resuming servicing after receiving notice that the loan was not discharged in bankruptcy or that the bankruptcy action was reversed or dismissed. These changes apply to bankruptcy notifications received by the lender on or after July 1, 1996.

*Claim payment:* For a nondefault claim, the guarantor purchases all interest that accrues from the interest-paid-through date through the date the guarantor pays a claim (if the lender does not incur any penalties for due diligence violations or for failure to meet timely filing or refiling deadlines). This applies to claims received by the guarantor on or after July 1, 1996.

*Claims – returned and refiled:* Resubmission of a claim on the 31st day through the 60th day, inclusive, after the guarantor returns the claim to the lender will result in loss of eligibility for interest, interest benefits, and special allowance payments beyond the 30th day after the return. This applies to returned claims received by the lender on or after July 1, 1996.

*Cohort default rates:* The defaulted loan of a student who attended and borrowed at more than one school is attributed to the respective schools at which the student received a loan that entered repayment for the fiscal year. A weighted average cohort default rate is required for schools with borrowers entering repayment in both FFELP and FDLP in the same fiscal year; the formula used to calculate the rate depends on the type of school and the number of students entering repayment. Rehabilitated FFELP or FDLP loans are not considered to be in default for purposes of cohort default rate calculations. "Enclosure B," which outlines cohort default rate appeal procedures, is renamed the "Official Cohort Default Rate Guide." Schools are no longer required to notify the Department of their intent to appeal cohort default rates. The criteria for appealing a school's cohort default rate were expanded. A school's chief executive officer (CEO) must provide a certification, under penalty of perjury, that all information submitted by the school in support of its cohort default rate appeal is true and correct. For a cohort default rate appeal based on exceptional mitigating circumstances, a school must submit an independent auditor's opinion regarding the CEO's assertion that the information contained in the school's

appeal is complete and accurate. Implementation of a default management plan or Appendix D is no longer a requirement for schools with cohort default rates greater than 20%. Implementation of Appendix D may not be used as a defense to loss of eligibility for schools with FFELP cohort default rates greater than 40%.

*Consolidation loans:* A borrower may consolidate defaulted loans by agreeing to repay the Consolidation loan under an income-sensitive repayment schedule. This applies to Consolidation loan applications received on or after July 1, 1996.

*Credit bureau reporting:* Lenders are strongly encouraged to wait until a borrower is at least 60 days delinquent before reporting a delinquency to a credit bureau. This applies to credit bureau reporting on or after July 1, 1996.

*Cure:* These changes are enforced for loans on which the first day of delinquency on the "oldest outstanding due date" is after July 1, 1996.

- Defines the earliest unexcused violation based on the type of violation causing the loss of the loan's guarantee.
- Codifies that a lender must complete the prescribed cure activities and reinstate a loan's guarantee within a specific 3-year time frame.
- The lender must complete the intensive collection activities (ICA)/location cure procedure (that is, the default claim must have been filed) by the 3-year deadline.

*Data matches:* The Department will perform a data match with the Social Security Administration to confirm claims of U.S. citizenship made on the FAFSA. The Department also will conduct a data match with the Selective Service to verify a male student's registration status. These provisions are applicable to loans certified for periods of enrollment beginning on or after July 1, 1996. For loan applications certified for the 1996–97 award year and after, the Department will conduct a data match with the Social Security Administration to verify the Social Security number a student provides on the FAFSA.

*Deferment:* A borrower who has defaulted on a loan is not eligible for a deferment unless the borrower makes payment arrangements acceptable to the lender to resolve the default prior to payment of the default claim by the guarantor. This applies to deferment requests received by the lender on or after July 1, 1996.

To obtain an unemployment deferment, a borrower may provide the titles (in lieu of the names) of the six persons contacted in an attempt to secure employment. This applies to unemployment deferments granted by the lender on or after July 1, 1996.

*Delivering loan funds:* The following changes apply to funds credited to the student's account on or after July 1, 1996:

- A school may use Stafford or PLUS loan proceeds to pay minor prior-year charges that do not exceed $100; loan proceeds can be applied to prior-year charges that exceed $100 if doing so will not prevent the student from paying his or her current year costs.

*Disability discharge (total and permanent):* Within 30 days of receiving payment of a disability discharge claim, the lender is required to return to the sender any payments received from, or on behalf of, a borrower after the date a physician certifies that the borrower is totally and permanently disabled. This applies to total and permanent disability claims filed by the lender on or after July 1, 1996.

*Disclosures:* Beginning with the 1996–97 award year schools must disclose completion/graduation and transfer-out rates to current and prospective students. Correspondence schools are no longer required to provide prospective students with a schedule for submission of lessons for courses of study beginning on or after July 1, 1996.

*Due diligence:* A lender must give the borrower 30 days from the date the final demand letter is mailed to repay principal and interest, plus interest and special allowance paid by the Department, on any portion of a loan that is ineligible. This applies to final demand letters mailed on or after July 1, 1996.

The following changes are enforced for loans on which the first day of delinquency on the "oldest outstanding due date" is after July 1, 1996. The "oldest outstanding due date" is the date from which the current 180-day due diligence counter is based and is sometimes referred to as the "latest," "current," or "next" due date. The following provisions are included:

- Permits lenders to substitute forceful collection letters for telephone contacts with borrowers who are incarcerated or live outside a state, Mexico, or Canada.
- Replaces 30-day buckets with new due diligence windows of 1–10 days delinquent and 11–180 days delinquent.

- Requires a final demand letter—which gives the borrower 30 days to bring the loan out of default—on or after 151st day of delinquency (was day 151–180). An exception is permitted if the borrower's address is unknown and remains unknown after the lender has exhausted all required skip tracing activities. In such instances, the lender is excused from sending the borrower a final demand letter, unless a valid address for the borrower is obtained on or before the 150th day of delinquency (the 210th day for loans payable in installments less frequent than monthly).

- Establishes collection rules for a rolling delinquency or special occurrence if 1–10 days delinquent, 11–90 days delinquent, 91–120 days delinquent, or more than 120 days delinquent, as a result of the event.

- Permits a lender to continue collection efforts required in the 11–180 days of delinquency after sending the final demand letter to the borrower. Specifies that those collection efforts should be restricted to diligent telephone efforts.

- Requires a lender to perform telephone skip tracing activities if the lender discovers—even on the last required attempt to make a diligent effort to contact the borrower—that the telephone number is invalid.

- Clarifies that at least one diligent effort to contact the borrower by telephone must occur on or before the 90th day of delinquency.

- Defines gap in collection activity.

- Defines diligent effort for telephone contacts.

- Defines telephone and address skip tracing requirements and establishes time frames.

- Prescribes due diligence requirements for endorsers.

- Preempts any state law conflicting with lender collection requirements.

- Defines "made-up" collection activity.

- If a lender determines that it does not know the current telephone number for a delinquent endorser, the lender must diligently attempt to obtain a valid telephone number through the use of normal commercial skip tracing techniques. If the lender determines that a delinquent endorser's telephone number is incorrect after it sends the final demand letter, the lender need not attempt to find a valid telephone number.

- For delinquent borrowers, a lender's skip tracing techniques must include an inquiry to directory assistance or a comparable service.

- A due diligence gap starts the day after the date the lender receives a new correct telephone number for a delinquent borrower.

*Eligibility – borrower and student:* For loans certified for periods of enrollment beginning on or after July 1, 1996:

- A stepparent is eligible for a PLUS loan if the stepparent's income and assets have been taken into account when calculating a dependent student's EFC.

- Secondary confirmation of an applicant's eligible noncitizen status is not required if the status was confirmed in a previous award year or if the school does not have conflicting information or reason to believe that the applicant's claim of citizenship is incorrect.

- If a parent is denied a PLUS loan due to adverse credit, this denial can be considered "exceptional circumstances." Only one parent need be denied a PLUS loan for a dependent student to be eligible for an additional unsubsidized Stafford loan; however, if either of the student's parents subsequently becomes eligible for a PLUS loan, future disbursements of the additional unsubsidized Stafford loan must be canceled.

For loan applications certified for the 1996–97 award year and after, students who enroll in service academies but withdraw before graduating (under any circumstances except a dishonorable release) are considered veterans for purposes of determining dependency status.

For loan applications certified on or after July 1, 1996, a student borrower seeking a Stafford loan or a student for whom a PLUS loan is being obtained must not have property subject to a judgment lien for a debt owed to the United States.

*Eligibility – school:* A school will lose FFELP eligibility 30 calendar days after the date it receives notification that its three most recent cohort default rates are 25% or greater—unless an appeal is filed. Limitation, suspension, and

termination actions may be taken against a school with any combination of a FFELP, FDLP, or a weighted average cohort default rate that is equal to or greater than 25%.

*Endorser:* An endorser is released from his or her repayment obligation if (1) the borrower dies or (2) on or after July 23, 1992, the student for whom a parent received a PLUS loan dies, or (3) the loan is discharged for any other reason. This applies to death certificates received by the lender on or after July 1, 1996.

*FAFSA:* The Statement of Educational Purpose has been added to the FAFSA.

*Forbearance:* A lender may apply an administrative forbearance if a borrower requests repayment alignment of his or her Stafford and SLS loans. This change applies to loans that are eligible for repayment alignment on or after July 1, 1996.

A lender may grant an administrative forbearance to a borrower to cover any period of delinquency that exists after the close of a period of deferment or mandatory forbearance. This applies to all deferments and mandatory forbearances with end dates on or after July 1, 1996.

*Foreign school:* Foreign schools must comply with federal regulations, unless exempted by the Department.

*Guarantee fee:* A lender must refund a prorated portion of the guarantee fee to the borrower's account if a loan or a portion of a loan is returned by the school to the lender on or after July 1, 1996. Lenders are encouraged to use a standard refund formula.

*Late disbursement/post-withdrawal disbursement:* If a lender makes a late disbursement 61–90 days after the borrower is no longer enrolled at least half time, it is the school's responsibility to determine and document that exceptional circumstances exist. This applies to loan funds delivered by the school on or after July 1, 1996.

*Loan amount:* Once a prorated loan amount has been certified, the school need not recalculate the borrower's eligibility if the number of hours for which the student is enrolled changes. This change is applicable to loans certified for periods of enrollment beginning on or after July 1, 1996.

*Loan certification:* For loan applications certified on or after July 1, 1996:

- A school may certify a loan for the entire academic year in which a borrower regains Title IV eligibility after default.
- A school may certify a PLUS application before the FAT or equivalent data is received.

A school is prohibited from charging a fee for completing or certifying any FFELP document or for providing any information necessary to receive a FFELP loan or program benefit.

*Notices and authorizations:* When a school notifies a borrower by electronic means that loan funds were credited to the student's account, the borrower must confirm receipt of that notice.

*NSLDS:* The Department issues Dear Colleague Letter GEN-96-13 to announce the availability of the National Student Loan Data System (NSLDS) to meet the regulatory requirements for obtaining financial aid transcript (FAT) information for purposes of determining student eligibility for Federal Title IV student assistance. Effective with the implementation of NSLDS reporting, applicable procedures may be included by the guarantor in a school program review. Beginning with the 1996–97 award year, schools may access the NSLDS to obtain financial aid transcript data.

For each transfer student applying for Title IV aid, a school must obtain and evaluate financial aid transcript (FAT) data from the National Student Loan Data System (NSLDS) for each school the student attended previously. A school is required to complete and return paper FATs when requested to do so by another school. A school may certify or decline to certify a Stafford or PLUS loan application and promissory note, but may not release the proceeds of any Stafford or PLUS loan before receiving and evaluating data from NSLDS or a paper FAT, as applicable. This change is effective for FAT data requested by schools for the 1996–97 award year and after.

In determining whether a student has ever defaulted on any Title IV loan, schools may rely on NSLDS financial aid history information (or transcripts from other schools in the case of a mid-year transfer student) and on information provided by the student or parent borrower during the application process, unless the school receives conflicting information. The school must reconcile all conflicting information before delivering any funds. This change is effective for FAT information requested by schools for the 1996-97 award year and after.

*Origination fee:* A lender must refund a prorated portion of the origination fees to the borrower's account if a loan or a portion of a loan is returned by the school to the lender on or after July 1, 1996. Lenders are encouraged to use a standard refund formula.

*Payment application:* A lender may credit an entire payment first to any late charges or collection costs, then to any outstanding interest, and then to outstanding principal. Unless the borrower requests otherwise, a payment that equals or exceeds the regularly scheduled payment amount must be applied to future installments. A borrower's due date may be advanced if the payment received is within $5.00 of the amount due; this tolerance cannot be applied to a curing payment. These changes apply to payments received on or after July 1, 1996.

*Record retention:* Schools must retain any records related to unresolved audits that begin or are in progress on or after July 1, 1996.

*Refunds:* A school must pay refunds to lenders within 60 days of the date that the student withdraws or is expelled. If a student does not return to school at the expiration of an approved leave of absence, the refund must be sent within 30 days of the date the leave of absence expires or the student notifies the school that he or she will not be returning, whichever is earlier. This applies to refunds for students who withdraw, are expelled, or do not return from leaves of absence on or after July 1, 1996.

*Repayment start date:* A 30-day extension of the first payment due date for a SLS loan is permitted if an extension is necessary for the lender to comply with the requirement that the payment disclosure be sent to the borrower no less than 30 days before the first payment is due. The 30-day extension had previously only applied to Stafford loans. This change applies to loans that enter or reenter repayment on or after July 1, 1996.

Changes codify the Dear Colleague Letter 88-G-138 rule to set the first due date within 45 days or within 75 days for late notification or early withdrawal.

*Repayment terms:* A lender may apply an administrative forbearance if a borrower requests repayment alignment of his or her Stafford and SLS loans. To align repayment of Stafford and SLS loans, the borrower need only have one Stafford loan that has not yet entered repayment. The length of the postponed SLS repayment period is determined by the Stafford loan with the longest applicable grace period. These changes apply to loans that are eligible for repayment alignment on or after July 1, 1996.

*Status changes and reporting:* Upon request, a school must promptly provide the Department, a lender, or a guarantor with any information it has regarding the address, name, employer, and employer address of any borrower who attends or has attended the school. This applies to changes reported to the school by the student or another reliable source on or after July 1, 1996.

For deferment and enrollment status reporting purposes, if a student does not return for the next scheduled term following a summer break or summer bridge deferment, the school must determine the student's withdrawal date within 30 days after the first day of the next scheduled term. This applies to scheduled terms that begin on or after July 1, 1996, for students who fail to return from a summer break.

### August 22, 1996

*Eligibility – borrower and student:* Noncitizen eligibility requirements are modified based on the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (effective August 22, 1996) and guidance from the Department of Education published in DCL GEN-98-2. The new eligibility criteria for FFELP borrowers includes noncitizens with a Departure Record (I-94) from the U.S. Immigration and Naturalization Service (INS) indicating one of the following statuses:

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

The changes indicate the elimination of eligibility for certain categories of noncitizens previously determined to be eligible: Temporary Resident, Indefinite Parolee, Humanitarian Parolee, and Cuban-Haitian Entrant. Acceptable documentation for determining U.S. citizenship status includes a U.S. passport.

*Delivering loan funds:* A school may deliver funds to an otherwise eligible student pending INS response to secondary confirmation, provided at least 15 business days have elapsed since the school submitted the documentation to INS. Citizens of the Federated States of Micronesia, the Republic of the Marshall Islands, and Palau are not eligible for FFELP funds at any participating school, but may be eligible for other types of Title IV aid. These changes are effective for loan applications certified by the school on or after August 22, 1996.

### September 1, 1996

*Bankruptcy:* If the late refiling of a bankruptcy claim results in a guarantor's missing any court-established deadlines, the result will be permanent cancellation of the guarantee on the loan, except in limited circumstances. This applies to returned claims received by the lender on or after September 1, 1996, unless implemented earlier by the guarantor.

*Consolidation loans:* A PLUS borrower may consolidate his or her PLUS loans if the dependent student for whom the parent has borrowed is enrolled at least half time. This applies to Consolidation loan applications received by the lender no later than September 1, 1996.

*NSLDS:* The Department issues Dear Colleague Letter GEN-96-17/96-L-189/96-G-291 that describes the implementation of the Student Status Confirmation Report (SSCR) function of the National Student Loan Data System (NSLDS). The guarantor is no longer responsible for the distribution and collection of SSCRs once the school receives a letter from the Department confirming the school's successful SSCR testing with the NSLDS. The Department, via the NSLDS, is responsible for ensuring that SSCR information is distributed to the appropriate guarantor and, in some cases, lenders. This change is effective on and after the date the school receives a letter from the Department indicating that the school has successfully tested its SSCR process through the NSLDS.

*Status changes and reporting:* A guarantor will assume that the lender's receipt date of enrollment information is the day a guarantor successfully transmits such information electronically to the lender. If an enrollment update report is generated in the last 7 days of the month, the lender receipt date is assumed to be no later than 5 days after the end of the month. These changes apply to enrollment information generated by the guarantor on or after September 1, 1996.

*Reinstatement of Title IV eligibility:* A borrower who requests reinstatement of Title IV eligibility, but is not requesting a new loan, is allowed to make the six required payments either before or after requesting reinstatement; at least one payment must be made by the borrower at or after the time of the request. This applies to loan applications certified by the school or requests for reinstatement of Title IV eligibility received from the borrower on or after September 1, 1996.

### November 1996

*Audit:* The Department announces the deadline for the completion of the lender audit is extended to June 30, 1998, for any audit period in which a lender originated or held FFELP loans totaling $5 million or less.

### November 27, 1996

The Department publishes final regulations on regulatory relief, record retention, conflict of interest, and guarantor and lender due diligence, effective July 1, 1997.

### November 29, 1996

The Department publishes final regulations on cash management and financial responsibility for schools, effective July 1, 1997.

### December 31, 1996

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

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

A lender who made or held FFELP loans totaling more than $5 million but less than $10 million for the fiscal years being audited and whose report does not disclose findings of noncompliance must retain those reports for a period of 5 years and submit them to the Department only if requested. Historically, meeting the requirement to submit an annual compliance audit for a lender who made or held less than $5 million in FFELP loans has been delayed. This is effective for fiscal years ending on or after December 31, 1996.

## 1997

### January 16, 1997

*Annual loan limit:* The criteria for determining annual loan limits for students taking preparatory coursework are revised:

- A student who is taking preparatory coursework that the school has determined and documented to be necessary for the student to enroll in an undergraduate program may borrow at the first-year undergraduate loan level.
- A student who is taking preparatory coursework that the school has determined and documented to be necessary for the student to enroll in a graduate or professional program may borrow at the fifth-year undergraduate loan level.

These changes are effective for loan applications certified by the school on or after January 16, 1997.

**February 1, 1997**

*Due diligence:* If all four required diligent efforts to contact the borrower by telephone have been completed and the lender subsequently becomes aware it does not have a correct telephone number for the borrower, the lender is not required to perform telephone skip tracing activities. This change is effective for borrower telephone numbers determined by the lender to be invalid on or after February 1, 1997.

If a lender learns that a reference does not know the borrower's current whereabouts, does not anticipate contact with the borrower in the future, or that the reference is not acquainted with the borrower, the lender must note this information in the loan's servicing history and is not required to contact that reference again. This change is effective for borrower addresses or telephone numbers determined by the lender to be invalid on or after February 1, 1997.

*Endorser:* If the PLUS loan applicant is required to obtain an endorser in order to be eligible for the PLUS loan, the student for whom the PLUS loan is being obtained cannot serve as the endorser. This applies to PLUS loan applications received by the lender on or after February 1, 1997.

**March 1, 1997**

*Interest rates:* A lender who offers discounted interest rates must notify the borrower that the lower interest rate ends on the date a default or ineligible borrower claim is purchased by the guarantor. A lender is required to provide documentation of this notice if a borrower challenges the guarantor or the Department of Education for charging the applicable statutory maximum interest rates during postclaim interest accrual. If the issue goes to court and the court's decision in favor of the borrower makes the loan unenforceable at the maximum statutory interest rate, the lender will be required to repurchase the loan and the guarantee will be withdrawn permanently. The lender may be required to reimburse the guarantor for any court costs or court-imposed fines or penalties. This applies to loans beginning repayment at a reduced interest rate on or after March 1, 1997.

*NSLDS:* Schools that have received a letter from the Department confirming successful submission of a Student Status Confirmation Report (SSCR) roster file to the National Student Loan Data System (NSLDS) are exempt from the requirement to process SSCR rosters received directly from guarantors. Schools that have not received a letter from the Department confirming successful submission of an SSCR roster file to the NSLDS must respond both to SSCR roster files received from the NSLDS and SSCRs received from guarantors until otherwise notified by the Department. These changes are effective for SSCR roster files received by a school from the Department on or after March 1, 1997.

*Reinstatement of Title IV eligibility:* A guarantor will review the most recent 6-month period to determine whether a borrower qualifies for reinstatement of Title IV eligibility. Each of the six required payments must be received within 15 days of the due date for the 6 months immediately preceding the date the guarantor receives the borrower's new loan application and promissory note or request for reinstatement. This applies to loan applications or requests for reinstatement received by the guarantor on or after March 1, 1997.

*Social Security Number documentation/reporting:* A passport is no longer accepted as a valid source document for initiating and reporting a Social Security number change. A state driver's license or a state-issued identification card for those states in which the Social Security number is listed on the license or identification card has been added as a resource document for the initiating and reporting an Social Security number change. This applies to Social Security number changes initiated or reported on or after March 1, 1997.

If a school becomes aware of any Social Security number (SSN) change, the school is expected to verify the correct SSN by obtaining a copy of an acceptable source document from the following list:

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

Changes to a student's SSN must be reported to the guarantor through NSLDS using the SSCR or an equivalent process. If the change is to a parent borrower's SSN, the school must continue to notify the guarantor directly. If the guarantor requires the supporting documentation for any SSN change, the school must provide it. Schools may contact individual guarantors for more information on procedures for reporting SSN changes. This change is effective for student SSN changes identified by a school on or after March 1, 1997.

**April 1, 1997**

*Closed school loan discharge:* If a closed school claim includes FFELP loans that have been paid in full as a result of a Consolidation loan, the consolidating lender must submit the original application and promissory note for the underlying FFELP loan(s) assigned to the guarantor. However, if the loan(s) that qualifies for discharge is paid in full as a result of consolidation, or consists solely of FFELP loans paid in full by or on behalf of the borrower and the original or the true and exact copy of the application and promissory note cannot be located, the guarantor and the lender must examine their records and any documentation submitted by the borrower to determine if the borrower qualifies for a discharge or refund. This applies for claims filed by the lender on or after April 1, 1997.

*Eligibility – borrower and student:* A baptismal certificate or voter registration card may not be used as acceptable documents for secondary confirmation of a student's or parent's citizenship. This applies to citizenship verifications requested by the school on or after April 1, 1997.

*False certification loan discharge:* If a false certification claim includes FFELP loans that have been paid in full as a result of a Consolidation loan, the consolidating lender must submit the original application and promissory note for the underlying FFELP loan(s) assigned to the guarantor. However, if the loan(s) that qualifies for discharge is paid in full as a result of consolidation, or consists solely of FFELP loans paid in full by or on behalf of the borrower and the original or the true and exact copy of the application and promissory note cannot be located, the guarantor and the lender must examine their records and any documentation submitted by the borrower to determine if the borrower qualifies for a discharge or refund. This applies for claims filed by the lender on or after April 1, 1997.

*Forbearance:* A lender may grant a forbearance retroactively to resolve the borrower's delinquency, provided the duration of each forbearance agreement does not exceed the maximum 12-month limit. This change is effective for forbearances granted by the lender on or after April 1, 1997.

**May 1, 1997**

*Bankruptcy:* If the lender receives a Notice of the First Meeting of Creditors (the Notice) or other confirmation from the bankruptcy court (directly either from the court or from another source) that a borrower has filed for relief under any chapter of the bankruptcy code, the lender must cease collection activities and may not file a preclaim assistance request with the guarantor. Further, if the lender has already filed for preclaim assistance and receives notice of any bankruptcy action, the lender must immediately, within 5 business days of the lender's receipt of the Notice, notify the guarantor to cancel preclaim activities based on a bankruptcy action filed on the borrower's loans. If the lender's failure to comply results in the court determining the loan to be unenforceable, the guarantee on the loan will be permanently canceled. Further, the lender will be required to reimburse the guarantor for costs associated with defending itself against contempt of court charges on the account if those charges are based solely on the lender's failure to comply with these provisions and can be demonstrated accordingly. In the event the lender receives notice that the bankruptcy action has ended and the loan remains enforceable and is deemed nondischargeable; the bankruptcy case is dismissed; or discharge is reversed, the lender must treat the loan as though it were in forbearance. This change is effective for loans on which the lender receives the bankruptcy notification on or after May 1, 1997.

*Consolidation loans:* A guarantor will guarantee a Consolidation loan only if the borrower (or borrowers in the case of spouses applying to consolidate their loans) has one or more active loans currently held by the guarantor except as otherwise agreed on a case-by-case basis by the lender and guarantor. This is effective May 1, 1997.

*Status changes and reporting:* A lender must not adjust the borrower's anticipated graduation date (AGD) if the lender receives enrollment information as part of an in-school deferment request that is certified for an academic period that ends earlier than the borrower's AGD of record and no conflicting AGD information is included on the enrollment certification. The lender must document that it received information from the school, but need not report to the guarantor any information regarding the loan's status, except to fulfill the NSLDS lender manifest reporting requirements. If the lender receives enrollment information that is certified for an academic period that ends after the borrower's AGD of record, the lender should adjust the borrower's AGD to agree with the information provided on the enrollment certification. The lender may process the deferment through the academic period end date certified by the school or the AGD of record, whichever is later, if the enrollment verification information used to certify the borrower's deferment eligibility does not include an AGD. This change is effective for in-school deferment requests received by the lender on or after May 1, 1997.

**May 31, 1997**

*Audit:* Delays in the publication of the servicer audit guide resulted in the Department allowing servicers to submit the first audit by May 31, 1997. Periods covered by the initial audit depend on when the lender servicer's fiscal year ends:

- If the fiscal year ends June 30 through October 31, the lender servicer may combine the annual compliance audit for fiscal years 1995 and 1996, or may have separate audits performed for each of those years.
- If the fiscal year ends November 1 through December 31, the lender servicer is required to have its initial compliance audit performed for fiscal year 1995.
- If the fiscal year ends January 1 through June 29, the lender servicer is required to have its initial compliance audit performed for fiscal year 1996.

If a lender's servicer had an independent audit of its servicing functions performed for fiscal year 1995 and 1996 to support the lender audit requirement, the servicer may submit those audits to the Department as meeting its servicer audit requirement for those fiscal years, provided that those audits meet certain standards. These changes reflect guidance given in Dear Colleague Letter (DCL) LS-97-01 and the "Audit Guide: Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program," published December 1996.

**June 1, 1997**

*Eligibility – borrower and student:* Effective for loans certified by the school on or after June 1, 1997, independent undergraduate borrowers, dependent borrowers whose parents are unable to borrow PLUS loans, and graduate and professional student borrowers may continue to borrow up to their individually applicable subsidized and unsubsidized aggregate loan limits, regardless of the "base" or "additional" unsubsidized loan amounts borrowed. Special calculations are required if a student's status changes from independent to dependent or if a dependent student borrower's parent, who initially was unable to borrow a PLUS loan, is later determined eligible. In these cases, the school must calculate the student's remaining aggregate loan eligibility by totaling only those portions of loans that represent the student's "base" Stafford loan amounts. These changes reflect guidance given in Dear Colleague Letter GEN-97-3.

**July 1, 1997**

Final regulations on regulatory relief, record retention, conflict of interest, guarantor and lender due diligence, and cash management take effect.

*Audit:* Schools are required to perform both annual compliance and financial audits based on their fiscal year. These audits must be submitted within 6 months of the end of their fiscal year. The financial statement must include a detailed description of related entities and should list parties related to the school and details that enable the Department to readily identify the related entities. A proprietary school must disclose in a footnote to its financial state the percentage of its revenues derived from Title IV programs during the covered fiscal year. Each compliance audit must cover all Title IV transactions in that fiscal year and all transactions that occurred since the period covered by its last compliance audit. The school must permit the Department or its authorized representative access to any records or documentation that would assist in the review of the school's third-party servicer's compliance or financial statement audit. Foreign schools also must submit an audited financial statement of the most recently completed fiscal year. If a school receives less than $500,000 (U.S.) in Title IV program funds during that fiscal year, its audited financial statement for that year may be prepared under the auditing standards and accounting principles of the school's home country. If a foreign school receives $500,000 (U.S.) or more in Title IV program funds during its most recently completed fiscal year, the school must submit its audited financial statement in accordance with U.S. federal regulation and satisfy the general standards of financial responsibility outlined for schools in the United States or must qualify under an alternate standard of financial responsibility specified in regulation. These requirements are effective July 1, 1997.

A third-party servicer that contracts with more than one lender must have performed a compliance audit that covers the servicer's administration of Title IV programs for all the lenders for which it services. This requirement may be satisfied with a single audit of all the servicer's functions if the audit encompasses all the services provided for the lenders for which it provides such services. These provisions are effective July 1, 1997.

*Authorizations and certifications:* The following changes are effective for authorizations obtained by a school to carry out the activities described under 34 CFR 668.165(b)(1) beginning on or after July 1, 1997:

- Schools must obtain written authorization from the student or parent borrower to perform certain activities.

- Guidelines for authorization modifications and cancellations are established.

*Consolidation loans:* A Federal Consolidation loan is considered to be disbursed on the date of the first individual or master check, payment advice, or noncash transfer that transfers funds from the consolidating lender to the holder of the loans to be consolidated. For funds disbursed by EFT, the Consolidation loan is considered disbursed on the first date that funds are transferred. If the loan funds for multiple underlying loans are disbursed on multiple days, including funds issued through the end of the 180-day add-on period, those disbursements are considered "subsequent disbursements." The loan's first disbursement date is used to determine its terms and conditions. This change is effective for Consolidation loans with first disbursements on or after July 1, 1997.

Lenders must report the making of a Consolidation loan to the guarantor not more than 60 days following the date on which the funds are disbursed. If a lender adds a loan within the 180-day add-on period, the lender must report the new Consolidation loan information to the guarantor within 60 days of the date on which the additional loan funds are disbursed or the adjustment is made. Failure to report the loan timely may result in the loss of the loan's guarantee. This is effective for Consolidation loans made by the lender on or after July 1, 1997.

*Credit balance:* Requirements for delivering of credit balances are defined effective for loan periods on or after July 1, 1997.

*Delivering loan funds:* The following changes are effective for loan proceeds received by the school on or after July 1, 1997. Schools must deliver loan proceeds within specific time frames after receipt. For EFT or master check proceeds, the school must deliver the funds directly to the student, or credit the student's account at the school within 10 business days after the school's receipt of the proceeds.

- Latest delivery date and time frame for returning undelivered proceeds to the lender is defined.
- Examples of latest delivery date and deadline for returning proceeds are provided.
- Schools must return loan proceeds to the lender within specific time frames after receipt.
- Delivery date for students who return from a leave of absence is defined.
- Delivery restrictions for schools on the reimbursement payment method are defined.

The following changes apply to schools that receive loan proceeds under the reimbursement payment method on or after July 1, 1997:

- Criteria for school certification of the application and promissory note is explained.
- Schools must receive approval from the Department before delivering loan proceeds.

The following change applies to the date, on or after July 1, 1997, that the Department notifies a school that it must obtain approval from the Department to certify loan applications:

- Certification restrictions for schools on the reimbursement payment method are defined.

The following changes apply to loan proceeds that are either credited to the student's account or paid directly to the student or parent borrower on or after July 1, 1997:

- The delivery date when the school is applying school funds in advance of receipt of FFELP proceeds is defined.
- The requirements for the notice to the borrower of the right to cancel are defined.

The following changes apply to students who become ineligible under 34 CFR 668.164(g)(1) (i.e., student is no longer enrolled as at least a half-time student for the loan period) on or after July 1, 1997:

- Schools may deliver loan proceeds after the end of the loan period or the date on which the student ceased to be enrolled at least half time.
- Schools must deliver a late disbursement no later than 90 days after the earlier of the end of the loan period or the date the student ceased to be enrolled at least half-time.

The following change is effective for payment periods beginning on or after July 1, 1997:

- Earliest date the school may directly pay the borrower or credit the student's account if the student is in a clock-hour program or credit-hour program that is not offered in semester, trimester, or quarter academic terms is defined.

The following changes are effective for loan periods on or after July 1, 1997:

- Requirements for the receipt and maintenance of loan proceeds are revised.
- School requirements for delivery of loan proceeds are revised.
- School delivery methods are defined.
- Delivery restrictions are defined.
- Requirements for delivering of credit balances are defined.
- Requirements for holding credit balances are defined.
- Requirements for crediting student accounts are explained.
- The first and second disbursement date must be scheduled on a payment-period basis rather than on the basis of period of enrollment.
- Required notices a school must send to a student are defined.

The following change is effective on or after July 1, 1997, for any balances of loan proceeds:

- A school must pay any remaining loan balance to a student or parent borrower no later than the end of the loan period.

*Due diligence:* Lenders are required to send the first delinquency notice no later than the 15th day of delinquency. The content of this first delinquency notice has been modified to include, at a minimum; lender/servicer contact information and a telephone number (e.g., the name and telephone number of the customer service department). It also must include a prominent statement informing the borrower that assistance may be available if the borrower is experiencing difficulty in making a scheduled payment. Because of the change in the timing of the first delinquency notice, the time frame for the second "window" of collection activity will change from the current 11–180 days delinquent period to 16–180 days (16–240 days delinquent for a loan repayable in installments less frequent than monthly). At least one of the four written notices or collection letters sent during this period must include, at a minimum, information regarding deferment, forbearance, income-sensitive repayment, loan consolidation, and other available options to avoid default.

The content of at least two of the four collection letters sent during the 16–180 day period has also been modified to add language to inform the borrower that the guarantor may also offset other payments made by the federal government to the borrower and that the guarantor may assign the loan to the federal government for litigation against the borrower. This change is effective for loans on which the first day of delinquency on the oldest outstanding due date is after July 1, 1997. The oldest outstanding due date is the date from which the current 180-day due diligence counter is based and is sometimes referred to as the "latest," "current," or "next" due date. The timing of when a lender may assess a late charge has been changed from 10 days to 15 days after a payment is due. This change is effective for late charges assessed by the lender on or after July 1, 1997.

*Electronic processing requirements:* A school must participate in the electronic processes that the Department provides at no substantial charge to the school. Schools are not restricted to using only software and services provided by the Department. This standard is effective July 1, 1997.

*Late disbursement/post-withdrawal disbursement:* Late disbursement by the lender and late delivery by the school is defined for students who become ineligible under 34 CFR 668.164(g)(1) (i.e., student is no longer enrolled as at least a half-time student for the loan period) on or after July 1, 1997.

*Payment period:* Because of possible differences in interpretation of the term "first day of classes," (i.e., first day of classes for an individual student or first day of regularly scheduled classes) the *Common Manual* definition of "payment period" is amended to clarify that the payment period begins on the first day of regularly scheduled classes. This applies to loan periods beginning on or after July 1, 1997.

*Record retention:* A lender is permitted to store records—except for the promissory note—for each FFELP loan it holds in hard copy or on microform (e.g., microfilm or microfiche), computer file, optical disk (e.g., electronic optical image), CD-ROM, or other imaged media formats capable of reproducing an accurate, legible, and complete copy in approximately the same size as the original document. This change is effective for records retained on or after July 1, 1997.

The Department has consolidated and clarified existing school record retention rules to reduce the administrative burden. A school is required to maintain program records, which document the school's eligibility administration of

the FFELP, and fiscal records relating to each FFELP transaction. The school also must keep loan-related records as follows:

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

These provisions are effective July 1, 1997.

*Refunds:* In calculating a pro rata refund for a student who withdrew from a clock-hour program, the school may include excused absences in the number of clock hours completed by the student as of his or her withdrawal date if both of the following conditions exist:

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

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

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

This change is effective for students eligible for pro rata refunds on or after July 1, 1997.

*Reissued disbursements:* The following changes are effective for disbursements reissued by the lender on or after July 1, 1997:

- Circumstances in which lenders will reissue loan proceeds are defined.
- Requirements schools must follow when requesting loan proceeds be reissued are defined.

*Status changes and reporting:* A school or the school's designated servicer must provide information about borrowers upon request by the Department, a lender, or a guarantor. Schools or the school's designated servicer should respond to such a request within 30 days. In addition to providing any information the school has regarding the last known address, full name, employer, and employer address of a borrower who attends or has attended the school, the school now must also provide the borrower's

telephone number and enrollment information. This applies to requests for information received by the school on or after July 1, 1997.

### August 5, 1997

President Clinton signs into law the Taxpayer Relief Act of 1997, providing for the Hope Scholarship Credit, the Lifetime Learning Credit, and a deduction on interest paid on student loans and creating the Education Individual Retirement Accounts (Education IRAs).

### September 18, 1997

*Consolidation loans:* If there is a data discrepancy on a Consolidation loan, the lender will be granted an additional 60 days from the date the guarantor rejects the application (plus 5 days' mail time) to provide additional or corrected information. The guarantor reserves the right to take appropriate corrective action (including the imposition of interest penalties) if the lender fails to report the making of a Consolidation loan, fails to report the disbursement of additional funds, or fails to report any other adjustment of the outstanding original balance within 60 days after that activity occurs. Repeated or intentional noncompliance (including failure to reconcile) may result in the withdrawal of the loan guarantee. This change is effective for Consolidation loans made by the lender on or after September 18, 1997.

### September 19, 1997

*Electronic processing requirements:* The Department publishes in the *Federal Register* a notice of new requirements that institutions must follow to be in compliance with the Department's administrative standard for electronic processes.

### November 1, 1997

*Deferment:* To obtain an unemployment deferment or an extension of an unemployment deferment, a borrower must request the deferment or extension. If requesting an extension, this description must document at least six attempts to secure employment during the period to be covered by the deferment. An Internet address for the firm or place of employment (e.g., Web site or electronic mail) is an acceptable address if the borrower applied electronically for employment. As an alternative to certifying employer contacts, a lender may accept comparable documentation that the borrower has used to meet the requirements of the Unemployment Insurance Service, provided the documentation shows the same number of contacts and contains the same information required from the borrower. In addition, an Internet address for the public or private employment agency at which the borrower is registered (e.g., Web site or electronic mail) is an acceptable address if the borrower registered electronically with the agency. It may not be presumed that a borrower has access to an employment agency based on the borrower's providing a firm's Internet address as part of the documentation that the borrower attempted to secure full-time employment. This change is effective for unemployment deferment requests received by the lender on or after November 1, 1997.

*Endorser:* An endorser may be released from his or her repayment obligation on a loan if the endorser dies and the lender receives evidence of the endorser's death, such as a copy of the death certificate or other proof of the endorser's death that is acceptable under applicable state law. This change is effective for death certificates or other acceptable documentation received by the lender on or after November 1, 1997.

### November 13, 1997

President Clinton signs into law (P.L. 105-78) the Emergency Student Loan Consolidation Act (ESLCA) of 1997.

*Consolidation loans:* The following provisions of the Emergency Student Loan Consolidation Act of 1997 (ESLCA) are effective for Consolidation loan applications received by the consolidating lender between November 13, 1997, and September 30, 1998, inclusive:

- **Withdrawal of Direct Consolidation Loan Application**

  A borrower with a pending application for a Direct Consolidation loan may apply for a Federal Consolidation loan, provided that the application for the Direct Consolidation loan is canceled by the borrower prior to the date on which the Federal Consolidation loan is made. The FFELP lender may rely on the borrower's statement that any pending Direct Consolidation loan application has been or will be canceled.

- **Direct Loans Eligible for Federal Consolidation**

  Direct loans may be included in a Federal Consolidation loan.

- **Non-discrimination in Making Federal Consolidation loans**

  Federal Consolidation loan lenders are prohibited from discriminating against a Federal Consolidation loan applicant based on any of the following criteria:

  – The number or types of eligible student loans the borrower wishes to consolidate.

  – The type or category of school the borrower attended.

  – The interest rate the lender is required to charge the borrower on the Consolidation loan.

  – The types of repayment schedules the lender must offer the borrower.

These provisions are effective for *all* Consolidation loan applications received by the consolidating lender on or after November 13, 1997.

*Interest rates:* For Federal Consolidation loans for which applications are received by the consolidating lender on or after November 13, 1997, the variable interest rate, adjusted annually on July 1, is calculated as follows:

- For portions of the Consolidation loan attributable to FFELP, FDLP, FISL, Perkins, HPSL, or NSL loans, the variable rate is based on the bond equivalent rate of the 91-day Treasury bill, auctioned at the final auction prior to the preceding June 1st, plus 3.1%, not to exceed 8.25%.

- For portions of the Consolidation loan attributable to HEAL loans, the variable rate is based on the 91-day Treasury bill, auctioned for the quarter ending June 30th, plus 3.0%. (There is no interest rate cap on the HEAL portion.)

If a lender initially calculated the interest rate on Consolidation loans, made during the subject period, at a fixed weighted average rate, the lender must convert the loans from the fixed to the variable rate prior to April 1, 1998, and make appropriate adjustments to the borrower's loan. In the conversion process, lenders must recalculate, at the variable rate, the amount of interest which would have been owed by the borrower on the Consolidation loan from the date on which the loan was made to the date of rate conversion and apply any credits to the borrower's account.

The interest rate applicable on an eligible loan added to a Federal Consolidation loan during the 180-day add-on period (except HEAL) is the variable interest rate applicable to the FFELP, FDLP, FISL, Perkins, HPSL, or NSL portion of the Federal Consolidation loan. The interest rate on HEAL loans added to a Federal Consolidation loan during the 180-day add-on period is the variable interest rate applicable to the HEAL portion of the Federal Consolidation loan.

*Interest subsidy:* Effective for all Consolidation loan applications received by the consolidating lender on or after November 13, 1997, during a period of authorized deferment, interest subsidies will be paid by the Department on the portion of a Federal Consolidation loan that repaid a subsidized Federal Stafford or subsidized Federal Direct Stafford loan.

### November 25, 1997

*Financial responsibility standards – school:* The Department publishes final regulations on the standards and provisions of financial responsibility for schools. Changes will be effective July 1, 1998.

### November 28, 1997

The Department publishes final "parity" regulations to eliminate certain differences in the requirements of the FFELP and FDLP and to reduce the regulatory burden on schools. Changes will be effective July 1, 1998.

### December 17, 1997

*Common forms:* The Department formally grants approval of the "Addendum to the Federal Family Education Loan (FFEL) Program Consolidation Application and Promissory Note." This addendum reflects the changed terms and conditions of the ESLCA of 1997.

## 1998

### January 1, 1998

*Aggregate loan limit:* A Stafford aggregate loan limit does not include the amount of capitalized interest or collection costs that were added to the balance of any of the borrower's prior loans. This applies to loan applications certified by the school on or after January 1, 1998.

*Deferment:* An in-school deferment will remain in effect until the student ceases to be enrolled full time, or for "new borrowers on or after July 1, 1993," enrolled at least half time. In the event that the lender receives new enrollment verification information that indicates the borrower has

been or will be continuously enrolled, a new deferment request is not required to extend the period of in-school deferment. A new deferment request is required only if the borrower has not been continuously enrolled or if a previous deferment is terminated at the borrower's request. This change is effective for enrollment verification information received by the lender on or after January 1, 1998.

If a borrower, residing on a U.S. military base or embassy compound in a foreign country because his or her spouse is stationed there, requests an unemployment deferment, he or she must provide documentation, equivalent to that required of borrowers residing in the U.S., describing the borrower's conscientious search for full-time employment. However, when identifying employment contacts, the "name of the firm" may be, for example, the U.S. military base employment office or U.S. embassy personnel office. These borrowers are not required to comply with the requirement that they document further attempts to secure employment during the period of certification, if the borrower has sought employment with the U.S. military base employment office, the U.S. embassy personnel office, or the equivalent. This applies to unemployment deferment requests received by the lender on or after January 1, 1998.

A borrower who is newly self-employed may not be able to provide traditional documentation of income for an economic hardship deferment. Instead, the borrower must provide the lender with a self-certifying statement of projected monthly income from all sources. In addition, the borrower must provide documentation of the newly formed business and documentation of the borrower's involvement in that business. This change is effective for deferment requests received by the lender on or after January 1, 1998.

*Due diligence:* For loans with a monthly repayment obligation, lenders must send the borrower at least four written notices or collection letters during the 16–180 days delinquency period, informing the borrower of the delinquency and urging the borrower to make payments. The required notices or collection letters sent during this period must include, at a minimum, information regarding deferment, forbearance, income-sensitive repayment, loan consolidation, and other available options to avoid default. This change became effective on January 1, 1998.

*Electronic processing requirements:* All schools that participate in the Title IV programs must also participate in the Title IV Wide Area Network (TIV WAN). Also, for the 1998–99 processing year and beyond, schools must achieve a specified level of electronic on-line access to the National Student Loan Data System (NSLDS).

*Forbearance:* If a lender grants a deferment based on the borrower's certification and documentation received and, after approving the deferment, the lender receives information indicating that the borrower did not qualify for all or a portion of the deferment, the portion of the deferment for which the borrower did not qualify must be canceled. The lender may grant administrative forbearance to cover past due payments resulting from the cancellation of all or part of the deferment. This change is effective for deferment requests received by the lender on or after January 1, 1998.

*Loan amount – adjustment:* After the loan is guaranteed, the school may identify a need to change (increase or decrease) a borrower's loan amount or to revise the allocation of the student's loans between subsidized Stafford funds and unsubsidized Stafford funds. Changes in the loan amount may be made without obtaining a new application and promissory note, provided any increased loan amount will not exceed the amount requested by the borrower on the application and promissory note. Reallocations of subsidized and unsubsidized funds may be made without a new application and promissory note, provided the student requested both subsidized and unsubsidized loan funds. Such loan adjustments or reallocations may occur before any disbursement is made on the loan, after the first disbursement is made, or even after the final scheduled disbursement is made. In some instances a loan adjustment, made after the first or subsequent disbursements have been made, may result in a single disbursement that exceeds half of the total loan amount. When that excess is clearly documented as a loan increase or reallocation of funds, it is permissible. This policy is effective for adjustment requests received by the guarantor on or after January 1, 1998, unless the guarantor implements this policy earlier.

*Record retention:* All lender records must be retrievable in a coherent hard copy format or in other media formats such as microform, computer file, optical disk, or CD-ROM. Any imaged media format used must be capable of reproducing an accurate, legible, and complete copy in approximately the same size as the original document, and must not permit additions, deletions, or changes without leaving a record of such additions, deletions, or changes. The media format must record and maintain the original document so that it can be certified as a true copy of the original in order to be admissible in a court of law, if such becomes necessary. If a document contains a signature, seal, certification, or any other validating mark, it must be maintained in original hard copy or in another media format that can produce a copy of the document (e.g., microform, optical disk, CD-ROM). This applies to records recorded by the lender on or after January 1, 1998.

**March 1998**

*Audit:* The Department announces the deadline for the completion of the lender audit is extended to June 30, 1999, for any audit period in which a lender originated or held FFELP loans totaling $5 million or less.

**May 15, 1998**

*Annual loan limit:* For loan periods beginning on or after May 15, 1998, the absence of borrowing under the HEAL program prior to October 1, 1995, was eliminated as an eligibility requirement for certain health profession students attending HEAL participating schools to be considered for unsubsidized Stafford loans exceeding standard annual and aggregate loan limits.

**June 9, 1998**

The President signs into law the Transportation Equity Act for the 21st Century, which enacts the Temporary Student Loan Provisions to amend the Higher Education Act with respect to the applicable interest rate and special allowance formula for Stafford and PLUS loans with a first disbursement on or after July 1, 1998, and before October 1, 1998.

*Interest rates: The following interest rate formulas for Stafford and PLUS loans first disbursed on or after July 1, 1998, were not implemented as a result of this legislation:*

- A Stafford loan has an annual variable interest rate, not to exceed 8.25%, regardless of the period of enrollment or the interest rate on the borrower's previous loans. The rate is calculated by adding 1.0% to the bond equivalent rate of securities with a comparable maturity as established by the Department.

- A PLUS loan has an annual variable interest rate, not to exceed 9%. The rate is calculated by adding 2.1% to the bond equivalent rate of securities with a comparable maturity as established by the Department.

*Special allowance: The following special allowance formulas for Stafford and PLUS loans first disbursed on or after July 1, 1998, were not implemented as a result of this legislation:*

- The special allowance rate for both Stafford and PLUS loans is calculated using the following formula:

  (Bond Equivalent Rate of Securities with a Comparable Maturity as Established by the Department + 1.0% – Applicable Interest Rate of the Loan) ÷ 4

**July 1, 1998**

*Cure:* In cases when a lender performs an ICA/location cure procedure on a loan for which a preclaim assistance request has not been submitted in the most recent 180-day delinquency period, the lender is no longer required to submit a request for preclaim assistance after the borrower has been located and before sending the final collection letter. This applies to borrowers located on or after July 1, 1998, unless implemented earlier by the guarantor.

*Disability discharge (total and permanent):* A borrower must be certified totally and permanently disabled according to FFELP discharge criteria for all underlying loans included in the Consolidation loan—including any non-FFELP loans. This applies to Temporary Total and Permanent Disability Certification Request Forms and Total and Permanent Disability Cancellation Request Forms received by the lender on or after July 1, 1998.

*Disclosure requirements:* The Department of Education removed the interest rate formula for Stafford and PLUS loans first disbursed on or after July 1, 1998, from the Borrower's Rights and Responsibilities section of the common Stafford and PLUS loan application materials. Lenders are now required to provide the actual interest rate, *including information on the rate's calculation*, in the initial disclosure to the borrower at or before the time of the first disbursement of a Stafford or PLUS loan. This change is enforced for Stafford and PLUS loans first disbursed on or after January 1, 1999, unless implemented earlier.

*Electronic processing requirements:* All participating institutions must have access to the Department's Information for Financial Aid Professionals Web site (**http://ifap.ed.gov**) in order to receive regulations, Dear Colleague Letters, and other important communications. Also, institutions must be able to submit the Application for Approval to Participate in Federal Student Aid Programs (recertification, reinstatement, and changes) through the Internet and to electronically submit the Fiscal Operations Report and Application to Participate (FISAP) to the Title IV Wide Area Network (TIV WAN). Diskettes are eliminated.

*Eligibility – borrower and student:* Stafford loan eligibility is clarified that if a student is eligible for a subsidized Stafford loan in an amount that exceeds $200, the school must certify an application for a subsidized Stafford loan prior to certifying an unsubsidized Stafford loan. If the student is eligible for a subsidized Stafford loan in an amount of $200 or less the school may include the amount

of subsidized Stafford eligibility in the unsubsidized Stafford loan. This applies to loan applications certified by the school on or after July 1, 1998.

*Financial responsibility standards – school:* The following changes are effective for schools that submit audited financial statements to the Department on or after July 1, 1998. However, schools that do not meet the composite score standard (see *Composite Score* below) for fiscal years that begin between July 1, 1997, and June 30, 1998, inclusive, may demonstrate that they are financially responsible by meeting the financial responsibility standards specified in 34 CFR 668.175(e).

- **General School Financial Responsibility Requirements**

  In addition to previous financial standards, schools must also comply with all of the following new financial responsibility requirements:

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

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

  – The school must meet all of its financial obligations.

- **Specific Criteria for Determining School Financial Responsibility**

  To fulfill the new cash reserve requirements, a school must meet at least one of the following criteria:

  – The school satisfies the financial responsibility standards for public schools.

  – The school is licensed to operate in a state that has a Department-approved tuition recovery fund to which the school contributes.

  – The school demonstrates that it has paid its refunds in a timely manner for both of the school's two most recently completed fiscal years.

  A school failing to meet at least one of the criteria listed must submit an irrevocable letter of credit that is acceptable and payable to the Department, equal to 25% of the total dollar amount of Title IV program refunds paid or that should have been paid by the school in the previous fiscal year.

  A public school is considered to be financially responsible if it meets all of the following conditions:

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

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

  – The school is not in violation of any past performance requirement.

  A proprietary or private nonprofit school is considered to be financially responsible if it meets the following conditions:

  – The school is current in its debt obligations.

  – The school's financial statements do not contain a statement in which the auditor has expressed doubt about the continued existence of the school.

  – The school has not violated a Title IV program requirement or affiliated persons do not owe a liability for Title IV program violations.

  – The school has sufficient cash reserves to make required refunds (see *Sufficient Cash Reserves Requirements* above).

  – The school's Equity Ratio, Primary Reserve Ratio, and Net Income Ratio yield a composite score of at least 1.5 (see *Composite Score* below).

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

- **Composite Score**

  One of the factors for determining a school's financial responsibility is a composite score that indicates the overall financial status of a participating proprietary or private nonprofit school. The Department uses the

school's audited financial statements to calculate a composite score, which is derived from a combination of the following three ratios:

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

The three ratios are adjusted by strength and weighting factors, and are then added together to arrive at a composite score.

Schools must satisfy the standards for a public institution under 34 CFR 668.171(c), be located in a state that has a tuition recovery fund approved by the Department and to which the school contributes, or demonstrate that required refunds by the school have complied with prescribed time periods during the school's two most recently completed fiscal years. This change is effective for guarantor reviews of a school's compliance with federal financial responsibility standards on or after July 1, 1998.

*Guarantee fee:* A lender must refund the guarantee fee or an appropriate prorated amount of the guarantee fee, and apply the refund as a credit to the borrower's principal balance, if any of the following conditions exist:

- The loan or any portion of the loan is returned by the school to the lender, at any time, to comply with Title IV program requirements. In the absence of any required notification from the school, the lender may assume that the school is returning funds to comply with these requirements.
- The disbursement check has not been negotiated within 120 days of disbursement.
- The loan proceeds disbursed by electronic funds transfer (EFT) or master check have not been released from the school's account within 120 days of disbursement.

*Interest rates:* For Stafford and PLUS loans first disbursed on or after July 1, 1998, but before October 1,1998, the interest rate formulas are prescribed by the Temporary Student Loan Provisions of the Transportation Equity Act for the 21st Century. These provisions are as follows:

- A Stafford loan has an annual variable interest rate not to exceed 8.25%, regardless of the period of enrollment or the interest rate on the borrower's previous loans. During periods when the loan is in an in-school, grace, or authorized deferment status, the interest is calculated by adding 1.7% to the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1. During periods when the loan is in repayment or forbearance status, the interest rate is calculated by adding 2.3% to the 91-day Treasury bill rate.
- A PLUS loan has an annual variable interest rate not to exceed 9%. The variable rate for each July 1 to June 30 period is calculated by adding 3.1% to the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1.

*Origination fee:* A lender must refund the origination fee or an appropriate prorated amount of the origination fee, and apply the refund as a credit to the borrower's principal balance, if any of the following conditions exist:

- The loan or any portion of the loan is returned by the school to the lender, at any time, to comply with Title IV program requirements. In the absence of any required notification from the school, the lender may assume that the school is returning funds to comply with these requirements.
- The disbursement check has not been negotiated within 120 days of disbursement.
- The loan proceeds disbursed by electronic funds transfer (EFT) or master check have not been released from the school's account within 120 days of disbursement.

*Payment application:* If a borrower, who does not have any loans in repayment, repays or returns any portion of the disbursement within 120 days of the disbursement, the lender must apply the funds as a cancellation or partial cancellation of the loan and refund the guarantee fee and origination fee or an appropriate prorated amount of the guarantee fee and origination fee, as applicable. The lender must apply the refund of the guarantee fee and origination fee as a credit to the borrower's principal balance. The lender must comply with any borrower request regarding

the application of repaid or returned funds. If a borrower has any loans in repayment, a lender must apply funds that are repaid or returned by the borrower within 120 days of the disbursement according to its normal payment processing procedures. The lender must comply with any borrower request that the repaid or returned funds be applied as a cancellation. This clarification is effective for funds received by the lender on or after July 1, 1998.

*Refunds:* Refunds are considered timely only if both of the following conditions are met:

- The reviewing entity did not find in the sample of student records audited for either fiscal year that the school made late refunds to 5% or more of Title IV recipients who received or should have received a refund, or did not find that the school made more than one late refund in that sample.

- The reviewing entity did not note for either fiscal year a material weakness or a reportable condition in the school's report on internal controls related to refunds.

*Special allowance:* For Stafford and PLUS loans first disbursed on or after July 1, 1998, but before October 1, 1998, the applicable special allowance formulas are prescribed by the Temporary Student Loan Provisions of the Transportation Equity Act for the 21st Century. These provisions are as follows:

- For Stafford loans only during the in-school, grace and deferment periods, the annual special allowance rate equals the average of the bond equivalent rates of the 91-day Treasury bills auctioned during the quarter, plus 2.5%, less the applicable interest rate on the loan.

- For Stafford loans, except during the in-school, grace and deferment periods, the annual special allowance rate equals the average of the bond equivalent rates of the 91-day Treasury bills auctioned during the quarter, plus 2.8%, less the applicable interest rate on the loan.

- For PLUS loans, the annual special allowance rate equals the average of the bond equivalent rate on of the 91-day Treasury bills auctioned during the quarter plus 3.1% less the applicable interest rate on the loan. However special allowance shall not be paid unless the calculated interest rate exceeds the 9% cap.

Variable-rate PLUS or SLS loans first disbursed before July 1, 1994, and variable-rate PLUS loans first disbursed on or after July 1, 1998, are eligible for special allowance only when the following criteria are met:

- The loan is accruing at the maximum interest rate specified in law for such a loan (also called the cap).

- The interest rate for each July 1 to June 30 period, as calculated prior to applying the interest rate maximum (or cap), exceeds the maximum interest rate on the loan.

This change, effective for PLUS loans first disbursed on or after July 1, 1998, incorporates the provisions of the Final Rule changes published in the Federal Register on November 1, 1999, and subsequent amendments to the Higher Education Act resulting from the Ticket to Work and Work Incentives Improvement Act of 1999.

### August 5, 1998

*Deferment:* A borrower whose first disbursement on his or her oldest outstanding loan is on or after July 1, 1993, is now eligible to receive an economic hardship deferment by providing the lender with documentation from the Peace Corps showing that he or she is or will be serving as a Peace Corps volunteer. A lender may grant an economic hardship deferment for up to the full 36-month maximum deferment period from a single request. A borrower who qualifies for an economic hardship deferment based on his or her Peace Corps service is not required to submit income documentation. This change is effective for economic hardship deferment requests submitted by eligible Peace Corps volunteers and received by lenders on or after August 5, 1998.

### September 1, 1998

*Common forms:* The Department released Dear Colleague Letter ANN-98-10, which introduced the Master Promissory Note (MPN) for the Federal Family Education Loan Program.

The Preclaim Request Form or an equivalent electronic format is effective for all requests filed by lenders. The Claim Form or an equivalent electronic format is effective for all claims filed by lenders on or after March 1, 2000, unless implemented earlier by the guarantor. These new forms require lenders to collect and report data, for loans first disbursed on or after September 1, 1998.

All loans included on the Preclaim Request Form must have the same loan type, due date, and interest-paid-through date. Subsidized and unsubsidized Stafford loans that have been combined into one repayment schedule may be combined in one preclaim request.

For all loans first disbursed on or after September 1, 1998, the lender *must* provide the following information when requesting preclaim assistance on the Preclaim Request Form or in an equivalent electronic format. For loans with first disbursements *prior* to September 1, 1998, if the lender has the following additional information, it must provide the information on the request for preclaim assistance:

- Address and last name, first name, and middle initial of two references.
- Full name of the endorser, comaker, or PLUS student and identifying code.
- Endorser's, comaker's, or PLUS student's Social Security number.
- Endorser's or comaker's last-known complete address and validity of the address, and home telephone number and validity of the number.
- Servicer's 6-digit servicer ID assigned by the Department.

The lender must provide other information only if it is available. The lender may or may not have this information in its servicing records. A lender that cannot provide this information is not required to establish a reporting mechanism.

*Due diligence:*

- **Common Skip Tracing Requirements**

  Unless otherwise noted, the following policies will be implemented for loans on which a notice of invalid address or telephone number, as applicable, is received on or after September 1, 1998, unless implemented earlier by the guarantor.

  – Simultaneous Address Skip Tracing and Telephone Due Diligence

    During the period the lender is attempting to obtain a valid *address* for a borrower, the lender must continue to perform all *telephone* due diligence requirements. The lender may cease making such calls only if it determines that a borrower's telephone number is invalid, in which case the lender must perform telephone skip tracing.

  – "Commercial" Skip Tracing Activities

    The lender's skip tracing activities must include other normal commercial skip tracing activities that the lender would conduct in pursuit of information on any other loan in its consumer loan portfolio. Lenders must perform at least two additional normal commercial skip tracing activities but are encouraged to pursue all available sources of information to obtain a valid address.

  – Address Skip Tracing Requirements

    The lender is not required to perform skip tracing activities if *both* of the following conditions are met:

    – The lender has mailed a timely final demand letter.

    – The borrower's loan becomes delinquent 151 or more days (211 or more days for loans payable in installments less frequently than monthly) as a result of the reversal of a payment.

  – Repeating Skip Tracing Activities Not Required

    If any address skip tracing activities have been performed prior to the lender becoming aware of an invalid telephone number for the borrower, the lender is considered to have begun telephone skip tracing activities and need not repeat any activities already completed. Similarly, if any telephone skip tracing activities have been performed prior to the lender becoming aware of an invalid address for the borrower, the lender must initiate additional address skip tracing activities within 10 days of making the determination that it does not have a valid address for the borrower, but need not repeat any activities already completed when performing required address skip tracing activities.

  – Telephone Diligent Effort Exceptions Modified

    A lender is not required to make diligent efforts to contact a borrower by telephone in the following cases:

- The lender is advised that the borrower has no telephone number or that there is no telephone service in the general geographic area where the borrower resides and the lender verifies and documents this information in the borrower's file or in the servicing history of the loan.

- The borrower's telephone number is invalid and all required skip tracing activities have been performed.

– Relationship between Endorser Due Diligence and Borrower Skip Tracing Requirements Clarified

A diligent effort to contact an endorser on a delinquent account is sufficient to satisfy both an endorser due diligence requirement and a borrower skip tracing requirement, provided the activity is documented as both in the lender's servicing history. If the endorser is contacted, the lender must discuss both the delinquency of the account and the endorser's obligation to repay the debt, and must confirm the borrower's location and telephone number.

- **Final Demand Letter**

Lenders must send a final demand letter to each delinquent borrower in accordance with appropriate due diligence requirements. If a lender fails to mail a final demand letter to a borrower in accordance with due diligence requirements and a "special occurrence" or rolling delinquency occurs, the lender is still required—regardless of the aging of the delinquency—to send a final demand letter. There are two exceptions to this requirement:

- The loan becomes 151 days or more delinquent (211 days or more delinquent for loans payable less frequently than monthly) and the borrower's address is invalid and remains invalid after the lender has exhausted all required skip tracing activities and required diligent efforts.

- The lender previously mailed a timely final demand letter prior to a rolling delinquency or a special occurrence (see subsections 11.3.E and 11.3.F) and the borrower is 151 days or more delinquent (211 days or more delinquent for loans payable less frequently than monthly).

These changes are effective for invalid address notifications received by the lender on or after September 1, 1998, unless implemented earlier by the guarantor.

- **Preclaims**

If a lender submits a request for preclaim assistance on which any required information is missing, incomplete, or inaccurate, the guarantor may attempt to obtain the necessary information from its own system or request the information from the lender. The lender must provide any requested information or resubmit any rejected preclaim request within the time frame established by the guarantor. If a lender is unable to provide the requested information within the guarantor's established time frames, the loan may be subject to an interest penalty if a claim is later filed and paid. Please refer to additional CCI information under the *August 19, 1999* entry in this appendix.

### October 1, 1998

*Annual loan limit:* The specific prorated subsidized Stafford loan limits of $1,750, $875, and $0, and the specific prorated unsubsidized Stafford loan limits of $2,500, $1,500, and $0, are no longer applicable to first- and second-year undergraduate students whose program, or remainder of the program, is less than one academic year. The prorated limits for these students are determined as a ratio of the student's program or remainder of the student's program (as measured in credit or clock hours) to a full academic year, multiplied by the applicable annual loan limit for a full academic year. This change is effective for loan applications certified by the school on or after October 1, 1998.

*Audit:* Generally, a lender is exempt from the annual audit requirement for any fiscal year subject to audit in which the lender made or held $5 million or less in FFELP loans. On October 1, 1998, any lender that made or held more than $5 million in FFELP loans during the fiscal year being audited is required to submit a compliance audit report to the Department no later than 6 months after the close of the audit period—regardless of whether the report identifies findings of noncompliance. This change is enforced as determined by the Department.

*Blanket guarantee:* A blanket certificate of loan guarantee (blanket guarantee) permits a lender to make Stafford and PLUS loans to eligible borrowers without receiving prior approval from the guarantor. Lenders may contact individual guarantors for information on the availability of, and participation in, a blanket guarantee program. This

change is effective for loans originated under a Blanket Certificate of Loan Guarantee approved by the Department on or after October 1, 1998.

*Cohort default rates:* The Higher Education Amendments of 1998 modified cohort default rate appeal criteria, as follows:

- If a school's cohort default rate or loss of FFELP eligibility appeal based on exceptional mitigating circumstances, erroneous data, or improper loan servicing or collection is unsuccessful, the school is required to pay to the Department the amount of interest, special allowance, reinsurance, and any related payments made by the Department (or which the Department is obligated to make) with respect to FFELP loans made to students attending or planning to attend the school during the pending appeal.

- A school may appeal its loss of FFELP eligibility on exceptional mitigating circumstances by demonstrating that its participation rate index is equal to or less than 0.0375 for any one of the three most recent fiscal years for which data is available.

- A school may appeal its loss of FFELP eligibility on exceptional mitigating circumstances based on educating low-income students by providing documentary evidence that, for a 12-month period that ended during the 6 months immediately preceding the fiscal year for which the cohort of borrowers used to calculate the school's cohort default rate is determined, at least two-thirds of the students, enrolled on at least a half-time basis meet either of the following criteria:

  – The student is eligible to receive a Pell Grant that is at least equal to one-half of the maximum available Pell Grant based on the student's enrollment status.

  – The student has an adjusted gross income that is less than the poverty level, as determined by the Department of Health and Human Services.

- If a school appeals its loss of FFELP eligibility on exceptional mitigating circumstances based on educating economically disadvantaged or low-income students, both degree- and non-degree-granting schools can add students who entered active duty in the U.S. Armed Forces to the numerator in the calculation of their respective completion and placement rates. For non-degree-granting schools, students or former students for whom the school is the employer should not be included in the numerator of the placement rate calculation.

- In a cohort default rate or loss of FFELP eligibility appeal based on improper loan servicing or collection, the Department must ensure that a school has access for a reasonable period of time, not to exceed 30 days, to a representative sample of the relevant loan servicing and collection records used by a guarantor in paying default claims or by the Department in determining a school's default rate in the loan program under part D of this title. If a school proves, during the appeal process, that a loan or loans defaulted due to improper loan servicing or collection, the Department will adjust the numerator and denominator of the school's FFELP, FDLP, or weighted average cohort default rate based on statistical inference from the appropriate representative sample.

Except for school appeals of FDLP and weighted average cohort default rates on the basis of improper loan servicing or collection which take effect on July 1, 1999, all of the above changes are effective for school cohort default rates published on or after October 1, 1998.

*Consolidation loans:* The following provisions of the Higher Education Amendments of 1998 are effective for Consolidation loan applications received by the consolidating lender on or after October 1, 1998:

- A consolidating lender may decline to consolidate Health Professions Student Loans (HPSL), including Loans for Disadvantaged Students (LDS), Nursing Student Loans (NSL), and Health Education Assistance Loans (HEAL).

- Direct loans may be included in a Federal Consolidation loan, making permanent the provision in the Emergency Student Loan Consolidation Act (ESLCA).

- A Consolidation loan borrower may receive another Federal Consolidation loan if the borrower obtains a new eligible loan after the date of the original Consolidation loan. All outstanding eligible loans may be consolidated, including loans made prior to any previous Consolidation.

- A borrower with loans in a default status must not be subject to a judgement secured through litigation or an order of administrative wage garnishment on a Title IV loan.

- A borrower or married couple with FFELP loans held by multiple holders may request consolidation from any participating consolidation lender, regardless of whether the consolidating lender is a holder of any of the borrower's loans.

Borrowers must use an addendum to the Loan Consolidation Application and Promissory Note. This addendum incorporates changes that resulted from the Emergency Student Loan Consolidation Act of 1997, and that were carried forward with the enactment of the Higher Education Amendments of 1998.

For Consolidation loans made from applications received during the period beginning October 1, 1998, through January 31, 1999, inclusive, the interest payment rebate fee is equal to 0.62% per annum of the unpaid principal and accrued interest of the loans.

*Cost of attendance:* Effective for loans certified by the school for periods of enrollment beginning on or after October 1, 1998, the specific minimum allowances to be used for the room and board component of the cost of attendance (COA) were removed. Schools are also now authorized to include a reasonable allowance for the documented rental or purchase of a personal computer. Additionally, the COA for students receiving instruction by telecommunications may include the documented cost of renting or purchasing equipment required for them to complete their educational programs. Previously, the COA for telecommunication students was generally limited to tuition and fees. These changes reflect provisions of the Higher Education Amendments of 1998.

*Deferment:* A new borrower from July 1, 1987, to June 30, 1993, is no longer required to obtain a new loan for a half-time period of enrollment that is to be covered by an in-school deferment. This change is effective for in-school deferments granted by the lender on or after October 1, 1998.

A lender must determine the eligibility of a borrower—or, as applicable, the dependent student—for an in-school deferment based upon the receipt of documentation indicating that the borrower is enrolled on at least a half-time basis. The lender may use documentation from an appropriate source (e.g., the borrower, school, guarantor, National Student Clearinghouse, or NSLDS)—provided the documentation supplies sufficient information to ensure that the borrower meets all eligibility criteria. A borrower is not required to request an in-school deferment. If the lender grants an in-school deferment and the borrower has not requested the deferment, the lender must notify the borrower of the in-school deferment and of the option to continue paying on the loan. This change is effective for in-school deferments granted by the lender on or after October 1, 1998.

*Delivering loan funds:* A school with a cohort default rate of less than 10% for each of the three most recent fiscal years for which data is available are exempt from delayed delivery provisions. This change is effective for disbursements scheduled by the school to be made on or after October 1, 1998.

*Disbursement rules:* A school with a cohort default rate of less than 10% for each of the three most recent fiscal years for which data is available may schedule loans to be disbursed in single installments, if the loan is for a period of enrollment that is not more than a single semester, trimester, quarter, or for a school without standard terms, not more than 4 months. A loan made to a student enrolled in a study-abroad program may be made in a single disbursement if the eligible school at which the student will receive course credit for the study-abroad program has a cohort default rate of less than 5%. These exceptions are applicable to disbursements scheduled by the school to be made on or after October 1, 1998.

*Disclosures:* Initial and repayment disclosure information must include the lender's telephone number and, at the lender's option, an electronic address from which the borrower can obtain additional loan information. This change is effective for initial and repayment disclosures issued by the lender on or after October 1, 1998.

*Eligibility – borrower and student:* The Higher Education Amendments of 1998 changed some borrower and student eligibility requirements, effective for loan applications certified by the school on or after October 1, 1998, as follows:

- A student must certify, as part of the Free Application for Federal Student Aid (FAFSA), a statement of educational purpose. A PLUS loan borrower must continue to certify a statement of educational purpose by signing and submitting the application and promissory note to the lender or school.

- A student who has completed in a home school setting a secondary education that is recognized as equivalent to a high school diploma under applicable state law is considered to have completed high school for purposes of Title IV eligibility.

- A student enrolled in coursework, offered in part or totally through telecommunications by a school, will be considered to be enrolled in correspondence courses *unless* all of the following criteria are met:
  - The school offers less than 50% of all courses by telecommunications or correspondence, and the student's coursework is part of a one-year or longer program leading to a recognized certificate or part of a recognized associate, baccalaureate, or graduate degree program.
  - The school offers recognized associate, baccalaureate, or graduate degrees for 50% or more of its programs.
  - The school is not an institution or school described in section 521(4)(C) of the Carl D. Perkins Vocational and Applied Technology Education Act.
- Citizens of any one of the Freely Associated States (i.e., The Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau) are not eligible for FFELP funds at *any* participating school, but may be eligible for other types of Title IV aid.

*Eligibility – lender:* A bank [as defined in section 3(a)(1) of the Federal Deposit Insurance Act] that is a wholly-owned subsidiary of a tax-exempt, nonprofit foundation [as described in section 501(c)(3) of IRS Code of 1986, and exempt from taxation under section 501(1) of the Code], for purposes of making FFELP loans only to undergraduate students age 22 or younger, provided the bank's FFELP portfolio does not exceed $5 million, is considered eligible to participate in the FFELP.

*Estimated financial assistance:* Estimated financial assistance (EFA) now includes national service education awards or postservice benefits, except when determining eligibility for a subsidized Stafford loan. In addition, veterans' educational benefits paid under Title 38, Chapter 30 (Montgomery GI Bill–Active Duty) must be excluded from a student's EFA when determining eligibility for a subsidized Stafford loan. This change is effective for Stafford loans certified by the school on or after October 1, 1998.

*Forbearance:* A borrower is not required to request a mandatory forbearance in writing. This change is effective for mandatory forbearances granted by the lender on or after October 1, 1998.

A lender may grant a forbearance for a period that does not exceed 60 days if the lender determines it is warranted in order to collect or process supporting documentation following a borrower's request for deferment, forbearance, a change in repayment plan, or loan consolidation. If such supporting documentation is not received within 60 days, the lender must resume servicing activities on the 61st day. The lender must not capitalize interest that accrues on the borrower's loan during this period of administrative forbearance. However, the lender may receive documentation or information that results in the granting of a deferment or other forbearance type that would be concurrent with this period and for which capitalization is permitted. These changes are effective for administrative forbearance granted by the lender on or after October 1, 1998.

*Grace period:* A Stafford borrower with a loan in a grace period, or with a loan in an in-school status that would subsequently enter a grace period, who is called or ordered to active duty, is entitled to a military extension of the grace period for a period not to exceed 3 years. To qualify for this extension, the borrower must be called or ordered to active duty, on or after October 1, 1998, from a reserve component of the U.S. Armed Forces for a period in excess of 30 days.

*Interest rates:* The interest rate formulas are prescribed by the Temporary Student Loan Provisions of the Transportation Equity Act for the 21st Century for Stafford and PLUS loans first disbursed on or after July 1, 1998, but before October 1, 1998, are carried forward with the enactment of the Higher Education Amendments of 1998.

For portions of the Consolidation loan attributable to:

- FFELP, FDLP, FISL, Perkins, HPSL, or NSL loans, the interest rate is a weighted average of the interest rates on the loans being consolidated, rounded up to the nearest one-eighth of a percent, not to exceed 8.25%.
- HEAL loans, the interest rate is variable and is based on the 91-day Treasury bill, auctioned for the quarter ending June 30, plus 3%. (There is no interest rate cap on the HEAL portion.)

*Interest subsidy:* The portion of a Federal Consolidation loan that repays a subsidized Federal Stafford or subsidized Federal Direct Stafford loan is eligible for interest subsidy during periods of authorized deferment, making permanent the provision in the ESLCA.

*Origination fee:* Lenders are permitted to pay origination fees on both subsidized *and unsubsidized* Stafford loans on the borrower's behalf. This change is effective for unsubsidized Stafford loans first disbursed by the lender on or after October 1, 1998.

*Repayment terms:* All FFELP borrowers—regardless of the date on which their first funds were disbursed or their outstanding indebtedness—are permitted to change their selection of repayment schedule annually. A lender must comply with an eligible borrower's request at least once every 12 months. The change is effective for borrower requests received by the lender on or after October 1, 1998.

*Teacher loan forgiveness:* The Higher Education Amendments of 1998 implemented the Loan Forgiveness Program for Teachers. Under this program, effective for "new borrowers" with Stafford loans on or after October 1, 1998, the Department repays a portion of an eligible borrower's Stafford loan obligations.

### October 7, 1998

President Clinton signed into Law the Higher Education Amendments of 1998, which reauthorize the federal student financial assistance programs.

*Eligibility – lender:* A consumer finance company subsidiary of a national bank that acted as a small business lending company (as defined in regulations prescribed by the Small Business Administration) through one or more subsidiaries, is eligible to participate in the FFELP, provided the bank's direct and indirect subsidiaries together must not have as their primary consumer function the making or holding of education loans.

*Interest payment and capitalization:* A lender may capitalize interest on an unsubsidized Stafford loan first disbursed from October 7, 1998 to June 30, 2000, inclusive, only when the loan enters repayment, the grace period ends, a deferment ends, a forbearance ends, or the loan defaults.

*Repayment terms:* Extended repayment is available to a new borrower on or after October 7, 1998, who has more than $30,000 in outstanding principal and interest on FFELP loans. An extended repayment schedule may provide for standard or graduated installments over a period not to exceed 25 years, an exception to the 10-year repayment period maximum. The $600 minimum annual payment requirement does not apply to extended repayment schedules.

*Voluntary Flexible Agreement:* An explanation of Voluntary Flexible Agreements (VFAs), approved by the Department of Education for implementation on or after October 7, 1998, advises that guarantors participating under VFAs must work with their school and lender partners to explain any unique requirements.

### October 8, 1998

*Bankruptcy:* Title 11 of the U.S.C. (the bankruptcy code) is revised to eliminate bankruptcy discharge on chapter 7, 11, 12, and 13 bankruptcies for FFELP borrowers in repayment for 7 years. The bankruptcy code continues to allow discharge for undue hardship. This change is effective for loans on which a borrower files a petition for bankruptcy on or after October 8, 1998.

*Child care provider loan forgiveness:* The Higher Education Amendments of 1998 implemented the Loan Forgiveness Demonstration Program for Child Care Providers. If funding is made available under this program, effective for "new borrowers" with loans first disbursed on or after October 8, 1998, the Department repays up to 100% of a borrower's Stafford loan obligations.

### November 1998

*Common forms:* The Department released Dear Colleague Letter GEN-98-25, which provided detailed information regarding the introduction of the Master Promissory Note (MPN) for Federal Stafford Loans in the Federal Family Education Loan Program. The MPN form will be first available for the 1999–2000 academic year (for loan periods beginning on or after July 1, 1999), and, beginning with the 2000–2001 academic year, will be the only promissory note approved for FFELP Stafford Loans. The MPN is a promissory note under which the borrower may receive loans for either a single period of enrollment or multiple periods of enrollment.

## 1999

### January 1, 1999

*Disclosure requirements:* The term "Treasury offset" has been added to clarify that federal offsets managed by the U.S. Treasury Department's Financial Management Service may include the offset of federal payments other than tax refunds, such as Social Security benefits or federal retirement benefits. References to "state offsets" have been revised to eliminate specific mention of "state income taxes" or "taxes" and will be more generic since states may offset funds other than tax refunds. Guarantors will delay enforcement of FFELP disclosure requirements until such time as the amended provisions are reflected in common application documents. However, lenders should be aware that changes to federal processes have been in place for some time and default consequences to borrowers may be more comprehensive than lenders are currently disclosing to their clients.

*Disclosures:* The Department of Education removed the interest rate formula for Stafford and PLUS loans first disbursed on or after July 1, 1998, from the Borrower's Rights and Responsibilities section of the common Stafford and PLUS loan application materials. Lenders are now required to provide the actual interest rate, *including information on the rate's calculation*, in the initial disclosure to the borrower at or before the time of the first disbursement of a Stafford or PLUS loan. This change is enforced for Stafford and PLUS loans first disbursed on or after January 1, 1999, unless implemented earlier.

*Summer bridge extension:* A borrower who is enrolled through the end of the spring academic period and who qualifies for an extension of the in-school deferment may advise a lender of his or her intent to reenroll for the fall academic period. The lender must document the borrower's request and the date on which the borrower anticipates the fall academic period to begin. If the lender does not receive a notice from the borrower regarding his or her intent to reenroll for the fall academic period, but subsequently receives documentation of the borrower's in-school deferment eligibility for the fall period, the lender may retroactively process the summer bridge extension. This change is effective for summer bridge extensions processed by the lender on or after January 1, 1999, unless implemented earlier.

**February 1999**

*Annual loan limit:* The Department issued Dear Colleague Letter GEN-99-7, which discussed the extension of eligibility for increased unsubsidized loan amounts due to the phase-out of the Health Education Assistance Loan (HEAL) program.

*Common forms:* The Department issued Dear Colleague Letter GEN-99-9, which discussed the Master Promissory Note and related instructions and the use of these forms.

**April 1, 1999**

*Exceeding loan limits:* If a borrower inadvertently exceeds an annual or aggregate loan limit, the borrower may regain eligibility by repaying the excess funds in full, making satisfactory repayment arrangements with the lender, authorizing the school to adjust the excess loan amount, or authorizing the school to reallocate funds between a subsidized Stafford loan and an unsubsidized Stafford loan for which the borrower is eligible. Borrowers who exceed the annual or aggregate loan limit as a result of providing false or misleading information must repay such loans in full to regain Title IV eligibility. These revisions are effective for loan applications certified by the school (or in the case of a Consolidation loan application, received by the lender) on or after April 1, 1999, unless implemented earlier by the guarantor.

*Interest subsidy:* If a student fails to check the box on the loan application indicating his or her request for a subsidized Stafford loan, but the school certifies subsidized Stafford loan eligibility for the student, the guarantor will guarantee the subsidized Stafford loan for the lesser of the amount certified by the school or requested by the student. In addition, a student's failure to request a subsidized Stafford loan no longer precludes the reallocation of subsidized and unsubsidized funds (provided the student requested an *unsubsidized* Stafford loan). These changes are effective for loan applications and promissory notes received by the guarantor on or after April 1, 1999, unless implemented earlier by the guarantor.

**April 16, 1999**

The Department published corrections and other technical changes to the final regulations in 34 CFR Part 682. The regulations govern the Federal Family Education Loan Program.

*Authorizations and certifications:* For Stafford and PLUS loans made using a common application and promissory note, the school continues to be required to obtain written authorization from the borrower to permit the release of loan proceeds received by EFT or master check from the school's account. The authorization may be obtained on the common application and promissory note or a separate form, and it must be obtained at or before the release of the loan's first disbursement.

Effective for EFT or master check disbursements delivered by the school on or after April 16, 1999, schools are no longer subject to the 30-day time restriction for obtaining EFT or master check authorizations on forms other than the common application and promissory note. For Stafford loans made using the Master Promissory Note (MPN), the school is not required to obtain separate borrower authorization to permit the transfer of loan proceeds received by EFT or master check to the student's account.

*Bankruptcy:* The borrower's attorney has been added as an acceptable source for providing proof of a borrower's bankruptcy filing. In addition, a lender must react to the Notice of the First Meeting of Creditors or "other proof of filing" of the bankruptcy from the borrower's attorney or the bankruptcy court. This is effective for bankruptcy notices received by the lender from the borrower's attorney or other proof of filing received by the lender on or after April 16, 1999, unless implemented earlier by the guarantor.

*Claims – returned and refiled:* If a default or ineligible borrower claim is returned to the lender solely due to inadequate documentation, the lender's eligibility for interest, interest benefits, and special allowance payments is triggered from the date the lender received the returned claim. This change is effective for returned default and ineligible borrower claims received by the lender on or after April 16, 1999, unless implemented earlier.

*Consolidation loans:* The eligibility requirement to either make satisfactory repayment arrangements or agree to repay a Consolidation loan under an income-sensitive repayment schedule is not applicable to defaulted loans other than Title IV loans. If a lender elects to consolidate defaulted Title IV loans, the borrower must first make satisfactory arrangements with the loan holder to repay the defaulted loans, or agree to repay the Consolidation loan under an income-sensitive repayment schedule. This is effective for applications received by the consolidating lender on or after April 16, 1999, unless implemented earlier by the guarantor.

*Credit balance:* A school may hold a borrower's Stafford or PLUS loan proceeds as a fiduciary for the benefit of not only the student but also the guarantor and the Department, if those proceeds represent a credit balance that would otherwise have been paid directly to the student or parent borrower. This revision does not apply to schools that are prohibited by the Department, under reimbursement payment methods, from holding credit balances. This is effective for credit balances held by a school on or after April 16, 1999.

*Deferment:* A borrower's defaulted loan is not eligible for a deferment that begins after the date of default, unless the borrower makes payment arrangements that are acceptable to the lender and that resolve the default prior to the payment of a default claim by the guarantor. Prior guidance was borrower-specific with respect to deferment of a defaulted loan prior to claim payment. This change is effective for deferment requests on defaulted loans granted by the lender on or after April 16, 1999.

*Disbursement rules:* Unless disbursement occurs by EFT or master check, Stafford loans must be disbursed by individual checks that are either payable to the student or copayable to the student and the school. Lenders must send individual checks for Stafford and PLUS loan borrowers directly to the school (except in the case of a student enrolled at an eligible foreign school). A Federal PLUS loan for a student enrolled in an eligible foreign school must be disbursed by an individual check that is made copayable to the parent borrower and the school. The check must be sent directly to either the parent borrower or the school. These changes are effective for loan proceeds disbursed by individual checks on or after April 16, 1999.

*Eligibility – borrower and student:* Each parent seeking a PLUS loan must not have property subject to a judgment lien for a debt owed to the United States. This is effective for PLUS loans certified by the school on or after April 16, 1999.

*Entrance counseling:* Touch-tone telephone technology has been added to the list of methods by which schools may conduct entrance counseling on or after April 16, 1999.

*Forbearance:* For borrowers who are jointly liable for repayment of a PLUS loan or Consolidation loan, a lender may grant a forbearance on repayment of the loan only if the ability of each individual to make scheduled payments has been impaired based on the same or different conditions. Lenders may grant a forbearance to a borrower or endorser to permit the resumption of payments following the date of default only if the forbearance is granted prior to the lender's receipt of the claim payment. These changes are effective for forbearances granted by the lender on or after April 16, 1999.

*Interest subsidy:* Lenders may not bill for interest benefits on a loan from the date the lender determines or receives notice of the guarantor's determination that the borrower is eligible for a discharge due to closed school or false certification provisions. This is effective for loans determined by the lender to be eligible for discharge due to closed school or false certification on or after April 16, 1999, or for which the lender receives notice of the guarantor's determination of discharge eligibility on or after such date, unless implemented earlier by the guarantor.

*Loan certification:* The minimum period of enrollment for which the school may certify a loan for a defaulted borrower who has regained eligibility during the academic year is the academic year during which the borrower has regained eligibility. This change is effective for loans certified by the school on or after April 16, 1999.

*Repayment start:* On Stafford, SLS, and PLUS loans, a borrower's first payment due date must be no later than 45 days after the last day of the post-deferment grace period, unless the borrower makes a prepayment that advances the due date during this period. Exceptions to the establishment of a first payment due date no later than 45 days after the last day of a deferment or forbearance period may occur as a result of a borrower making a prepayment that advances the due date. These changes are effective for deferment, forbearance, and post-deferment grace periods ending on or

after April 16, 1999, unless implemented earlier by the guarantor. For Consolidation loans, the lender must establish a first payment due date that is no more than 60 days after the date on which the last disbursement discharging underlying loans is made. This change is effective for Consolidation loans disbursed by the lender on or after April 16, 1999, unless implemented earlier by the guarantor.

*Repayment terms:* For repayment schedules issued by the lender on or after April 16, 1999, lenders must combine, to the extent practicable, all of a borrower's FFELP loans into a single account to be repaid under a single repayment schedule.

*Special allowance:* The lender may bill for special allowance on a loan only through the 60th day following the date of default, unless the lender files a claim on the loan on or before the 60th day following that default. This change is effective for claims filed by the lender on or after April 16, 1999, unless implemented earlier by the guarantor.

**May 1, 1999**

*Annual loan limit:* For loan periods beginning on or after May 1, 1999, all institutions offering eligible health profession programs are eligible to award the increased unsubsidized loan amounts regardless of past participation in the HEAL Program.

**June 1999**

*Eligibility – borrower and student:* The Department issued Dear Colleague Letter GEN-99-16, which announces that the provision of the HEA related to student eligibility for Title IV financial aid due to drug convictions will not become effective until July 1, 2000.

**July 1999**

*Common forms:* The Department issued Dear Colleague Letter GEN-99-23, indicating their approval of new deferment forms for the following deferment types:

- Unemployment
- Public Service
- Parental Leave/Working Mother
- PLUS Borrower with Dependent Student
- In-School
- Economic Hardship
- Education Related
- Temporary Total Disability

**July 1, 1999**

*Additional unsubsidized Stafford funding:* A school may certify an additional unsubsidized Stafford loan for a student whose parent is unable to obtain a PLUS loan. However, if either parent later becomes eligible for a PLUS loan, the school must return to the lender any additional unsubsidized Stafford loan funds received by the school but not yet delivered to the student for that loan period. This change is effective for loans certified on or after July 1, 1999, unless implemented earlier by the guarantor.

*Common forms:* The Master Promissory Note (MPN) must be used for Stafford loans certified by the school for loan periods beginning on or after July 1, 1999, implementing policy guidance provided in Dear Colleague Letters GEN 98-25 and GEN 99-9.

*Delivering loan funds:* For Stafford and PLUS loan proceeds disbursed by EFT or master check and received by the school on or after July 1, 1999, the school must deliver the funds directly to the student, or credit the student's account at the school, within three business days after the school's receipt of the loan proceeds.

*Deferment:* Deferments generally are borrower-specific—not loan-specific. However, if all of the borrower's loans are paid in full and the borrower subsequently obtains a new loan, the borrower is eligible for all deferments applicable to that new loan, despite any previous periods of deferment.

Parental leave deferments are neither borrower-specific nor loan-specific, but are based on occurrence. A borrower is eligible for a parental leave deferment for each newborn or adoption and may obtain a deferment for the maximum period for each occurrence. These changes are effective for deferment requests received by the lender on or after July 1, 1999, unless implemented earlier by the guarantor.

*Eligibility – borrower and student:* For loans certified by the school for periods of enrollment beginning on or after July 1, 1999, legal guardians have been eliminated from the definition of a parent for the purpose of PLUS loan eligibility.

*Guarantee transfer:* A borrower-requested guarantee transfer may occur only if the borrower's request is obtained in writing, and the holder and both guarantors agree to the transfer. In the case of a loan made to two borrowers as comakers, both borrowers must request the transfer in writing. A guarantor will not accept a borrower-requested transfer of guarantee on any loan that is 30 or more days delinquent, that is currently filed as a claim with the transferring guarantor, or that reflects or should reflect a stay of collection activities based on the borrower's filing of a bankruptcy action, or if the lender does not know the

current address of the borrower. The lender must provide written certification to the guarantor accepting the transfer that, according to its records at the time of transfer, none of these conditions exists for the loan being transferred. A guarantee may be transferred without the borrower's request only with the prior approval of the Department, the loan's holder, and both guarantors. Prior to any guarantee transfer, the lender of the loan must have an active agreement with the guarantor accepting the transfer. The lender also must obtain the borrower's written request or the Department's written approval, as applicable, and supply the guarantor accepting the transfer with copies of those documents, if required by the guarantor. Guarantee fees paid on the loan will not be transferred. This is effective for guarantee transfer requests submitted by the lender on or after July 1, 1999, unless implemented earlier by the guarantor.

**August 1, 1999**

*Closed school loan discharge:* In the case of a closed school discharge request, a borrower must certify under penalty of perjury that all of the information that is provided by the borrower in the request and in any accompanying documents is true and accurate. This change is effective for all new loan discharge forms sent to borrowers on or after August 1, 1999. Other loan discharge applications sent to borrowers prior to that date may still be processed after that date.

*False certification loan discharge:* A borrower must complete, certify, and submit to the lender the applicable loan discharge form approved by the Department to qualify for a false certification discharge. For a loan discharge based on a disqualifying status, the borrower must complete, certify, and submit to the lender the Loan Discharge Application: False Certification (Disqualifying Status) form, in which the borrower states that he or she (or the student in the case of a PLUS borrower) was unable to meet the legal requirements for employment in the student's state of residence in the occupation for which the program of study was intended, due to age, physical or mental condition, criminal record, or other reason. The borrower must also provide information about the state legal requirement for employment that the student could not meet, including a reference to—or a copy of—the specific state law or regulation, and provide supporting documentation proving that the borrower had the disqualifying status at the time the loan was made. If the guarantor determines that a borrower is eligible for a loan discharge or a discharge of one or more disbursements on a loan, the discharge cancels the obligation of the borrower to repay the applicable outstanding principal, accrued interest, collection costs, and late fees. It also qualifies the borrower for reimbursement of any amounts paid voluntarily or through forced collection on the amount discharged. The lender or guarantor must ensure that a discharge is reported to credit bureaus, such that adverse credit history associated with the amount discharged is removed. This is effective for all new loan discharge forms sent to borrowers on or after August 1, 1999. Other loan discharge applications sent to borrowers prior to August 1, 1999, may still be processed.

**August 5, 1999**

*Forbearance:* A lender may grant an administrative forbearance to a borrower—or endorser, if applicable—who contacts the lender and requests temporary relief from his or her loan obligation because he or she has been adversely affected by a natural disaster. The lender may grant an administrative forbearance for a period not to exceed 3 months, based on the borrower's or endorser's verbal or written request. Continuation of the forbearance beyond this 3-month period requires supporting documentation and a written agreement from the borrower or endorser. This change is effective for administrative forbearance granted by the lender on or after August 5, 1999, for a borrower or endorser who has been adversely affected by a natural disaster.

**August 9, 1999**

*Common forms:* The Department issued Dear Colleague Letter 99-G-319, which provides information regarding the approved Plain Language Disclosure (PLD) text for Stafford loans made under a Master Promissory Note (MPN) in the FFELP.

**August 19, 1999**

*Common forms:* Implementation of the Common Claim Initiative (CCI) policies originally included in chapter CCI8 (now chapters 11, 12, and 13) of this manual, and referenced under the *September 1, 1998* entry in this appendix, is delayed.

The new effective date for the implementation of the CCI policies originally in chapter CCI8 (now chapters 11, 12, and 13) will be as follows: A guarantor will establish the date on which it is ready to trade CCI electronic records with its trading partners. This date is referred to as the "G" date. All guarantor "G" dates will be established based on the final publication of the CCI electronic formats with one "G" date for preclaims and another "G" date for claims. The earliest "G" date that a guarantor may establish is two months after the final release of the CCI preclaim and claim documentation, respectively. The latest "G" date that a guarantor may use is 12 months following the final release of the CCI documentation. All CCI trading partners will be provided a window of 6 months from each guarantor's "G"

date to start reporting data using the CCI electronic format. Therefore, the preclaims and claims effective dates will be the guarantor "G" date plus 6 months. For example:

| | |
|---|---|
| July 6, 1999 | Preclaims Documentation Released |
| September 6, 1999 | Earliest Guarantor "G" Date |
| March 6, 2000 | Earliest Required Implementation Date |
| July 6, 2000 | Latest Guarantor "G" Date |
| January 6, 2001 | Latest Required Implementation Date |

### September 1999

*Common forms:* The Department issued Dear Colleague Letter GEN-99-28, announcing their approval of the following new PLUS Loan application forms, which must be used for applications issued on or after March 1, 2000:

- Application and Promissory Note for Federal PLUS Loan and instructions.
- Borrower's Rights and Responsibilities.
- Endorser Addendum to Federal PLUS Loan Application and Promissory Note and instructions.

The Department issued Dear Colleague Letter GEN-99-30, announcing their approval of an extension of the expiration date of the Federal Stafford Loan Master Promissory Note (MPN) to August 31, 2002.

### October 22, 1999

The Department published Final Rules on student eligibility.

### October 29, 1999

The Department published Final Rules on institutional eligibility and guarantors and FFELP lenders.

### November 1999

*Common forms:* The Department issued Dear Colleague Letter GEN-99-35, indicating their approval of a new Total and Permanent Disability Cancellation Request Form, which must be implemented no later than January 1, 2000.

### November 1, 1999

The Department published Final Rules on refunds (return of Title IV aid), FFELP and Direct Loan program common provisions, consumerism, and cohort default rates.

*Common forms:* The Department issued Dear Colleague Letter GEN-99-23 to implement revised common deferment forms that were approved by the Department in July 1999. Lenders must distribute the new deferment forms to borrowers no later than November 1, 1999.

*Forbearance:* The Department issued Dear Colleague Letter GEN-99-36 to authorize lenders to grant an administrative forbearance in order to extend the period of suspension of due diligence for up to an additional 60 days if it is found, during the initial suspension period, that further time is needed to obtain the required death claim documentation.

### December 2, 1999

*Common forms:* The Department issued Dear Colleague Letter GEN-99-37, indicating their approval of four new loan discharge applications for the following reasons.

- School Closure
- False Certification of Ability to Benefit
- False Certification (Disqualifying Status)
- Unauthorized Signature/Unauthorized Payment

## 2000

### January 1, 2000

*Consummated loans:* For recordkeeping and reporting purposes, rather than making a loan-level determination, a lender must determine whether a disbursement is consummated or unconsummated. This change is effective for disbursements made by the lender on or after January 1, 2000.

*Special allowance:* The average of the bond equivalent rates of the quotes of the 3-month commercial paper (financial) rates in effect for each of the days in the quarter (also called the 3-month commercial paper rate) is now a factor in calculating special allowance payable on the following loans:

- Stafford and PLUS loans first disbursed on or after January 1, 2000.
- Federal Consolidation loans made from applications received by lenders on or after January 1, 2000.

### January 3, 2000

*Audit:* At the request of a school, the Department may waive the annual audit submission requirement for schools that meet certain criteria. If the Department grants the waiver, the school will not need to submit a compliance audit or audited financial statement until six months after one of the following:

- The end of the third fiscal year following the fiscal year for which the school last submitted a compliance audit and audited financial statement.
- The end of the second fiscal year following the fiscal year for which the school last submitted compliance and financial statement audits if the award year in which the school will apply for recertification is part of the third fiscal year.

This change is effective for annual audit submission waiver requests submitted by the school on or after January 3, 2000, such that the Department may begin granting waivers on or after July 1, 2000.

### February 1, 2000

*Deferment:* For economic hardship deferment requests received by the lender on or after February 1, 2000, the lender must include defaulted loans on which the borrower has made satisfactory repayment arrangements with the holder when determining a borrower's federal education debt burden for purposes of establishing economic hardship deferment eligibility.

### March 1, 2000

*Bankruptcy:* A lender must file a bankruptcy claim if a Chapter 7 or 11 bankruptcy converts to a Chapter 12 or 13 bankruptcy. This is effective for bankruptcy filing or conversion notifications received by the lender on or after March 1, 2000, unless implemented earlier by the guarantor.

*Deferment:* A borrower who is unemployed, incarcerated, disabled, or on a temporary unpaid leave of absence from work may qualify for an economic hardship deferment if he or she provides the lender with documentation of his or her income. In addition, any borrower who does not have income when applying for an economic hardship deferment must provide to the lender a self-certifying statement, either on the deferment form or in a separate statement, indicating that he or she has no income. This is effective for economic hardship deferment requests received by the lender on or after March 1, 2000, unless implemented earlier by the guarantor.

*Payment application:* A lender is no longer required to document in the claim file the borrower's instructions regarding the application of prepayments. However, the guarantor may require the lender to provide documentation of any borrower request regarding the application of payments as part of a program review or to substantiate a claim in the event of a borrower dispute. This change is effective for claims filed by the lender on or after March 1, 2000, unless implemented earlier by the guarantor.

### March 13, 2000

*Common forms:* Schools located outside of the United States may not use the multi-year feature of the MPN. Also, if a school has been deemed eligible by the Department to use the multi-year feature, the feature is applicable to all of the institution's students, even those who are not enrolled in four-year, graduate, or professional programs. This change is effective for loans certified by the school on or after March 13, 2000.

### April 1, 2000

*Deferment:* If the dependent student for whom a parent borrower obtained one or more PLUS loans meets the conditions required for an in-school deferment or rehabilitation training deferment, the parent borrower may defer all of his or her PLUS loans based on the status of that one student—provided that the parent borrower, on the date he or she signs the promissory note, had an outstanding balance on a FFELP loan disbursed before July 1, 1993. Previously, the manual inadvertently limited such eligibility to borrowers with a loan first disbursed on or after July 1, 1987, but prior to July 1, 1993. In addition, a PLUS borrower is no longer eligible for a graduate fellowship deferment based on the status of a dependent student. These changes are effective for deferments granted by the lender on or after April 1, 2000, unless implemented earlier by the guarantor.

### May 1, 2000

*Forbearance:* When granting a reduced-payment forbearance, the lender must provide the following information to the borrower:

- Information on the payment amount due during the forbearance.
- The address to which payments must be sent.
- The consequences, if any, of delinquency on payments required during the forbearance.

If a borrower becomes delinquent on required payments during a reduced-payment forbearance, the lender must comply with the terms of the forbearance agreement. Such terms may include the borrower being considered delinquent and ultimately defaulting if the agreed upon reduced payments are not made. This is effective for forbearances granted by the lender on or after May 1, 2000, unless implemented earlier by the guarantor.

**July 1, 2000**

*Additional unsubsidized Stafford funds:* A school may not certify additional unsubsidized Stafford loan funds for a dependent student based on the school's decision not to participate in the PLUS Loan Program. This clarification is effective for unsubsidized Stafford loan funds certified by the school beginning no later than July 1, 2000.

*Bankruptcy:* If a borrower files a Chapter 12 or 13 bankruptcy, the lender must suspend any collection efforts against any comaker or endorser. Suspension of collection efforts against any comaker or endorser is optional if the borrower filed a Chapter 7 or 11 bankruptcy. If the lender is notified that a comaker or endorser has filed a petition for relief in bankruptcy, the lender must immediately suspend any collection efforts against the comaker or endorser that are outside the bankruptcy proceeding. If the comaker or endorser filed a Chapter 12 or 13 bankruptcy, the lender must also suspend any collection efforts against the borrower and any other parties to the note. Suspension of any collection efforts against the borrower and any other parties to the note is optional if the comaker or endorser filed a Chapter 7 or 11 bankruptcy. These changes are effective for active bankruptcies on or after July 1, 2000, unless implemented earlier by the guarantor.

*Borrower dispute:* If a borrower disputes the terms of a loan in writing, and the lender does not resolve the dispute, the lender must inform the borrower of an appropriate guarantor contact for the resolution of the dispute. This is effective for borrower disputes received by the lender on or after July 1, 2000.

*Claim filing requirements:* When filing a claim, a lender must include both the loan application (if separate) and the promissory note assigned to the guarantor (or a copy of the promissory note certified by the lender as true and accurate). This change is effective for claims filed by the lender on or after July 1, 2000—or prior to July 1, 2000, if the loan was made using the Master Promissory Note.

*Claim repurchase/recall:* A lender will be required to repurchase a claim if the loan is ruled by a court to be legally unenforceable solely due to the lack of evidence of a Confirmation or Notification process for loans generated from the Master Promissory Note. This change is effective for loans ruled unenforceable by a court of law on or after July 1, 2000.

A lender must repurchase a default claim if a delay occurred in the processing of a deferment that began prior to the date of default. This is effective for deferment documentation processed by the lender on or after July 1, 2000, unless implemented earlier by the guarantor.

A lender must recall a default claim if the loan is reduced to 210 or fewer days delinquent before the guarantor pays the claim. This change is effective for loans on which the delinquency is reduced to 210 or fewer days on or after July 1, 2000, in cases where the lender has filed a claim based on the 270th day of delinquency but the guarantor has not yet paid the claim. This change may have been implemented by the guarantor on or after October 7, 1998.

*Closed school loan discharge:* A borrower may qualify for a closed school loan discharge without submitting a request if the borrower received a closed school discharge on a loan under the Federal Perkins Loan Program or the Federal Direct Loan Program for the same program of study at the same school, or if the Department or the guarantor, with the Department's permission, determines that the borrower qualifies for a discharge based on information in the Department's or guarantor's possession. This change is effective for closed school loan discharge determinations made on or after July 1, 2000.

*Cohort default rate:* Provisions related to the calculation of a school's FFELP cohort default rate, FDLP cohort default rate, or dual-program cohort default rate are revised as follows:

- A school may become ineligible to participate in the Federal Pell Grant Program as a result of ineligibility to participate in the FFELP or FDLP due to excessive cohort default rates.

- When the Department notifies a school of its draft cohort default rate, it will also provide a school which has a draft cohort default rate of 10% or more a copy of the supporting data used in calculating its draft rate.

- If a school is planning a challenge to its draft cohort default rate, the school now has 45 calendar days to provide information supporting its challenge to the guarantor(s). If the school is planning to challenge the anticipated loss of participation in the FFELP based on a draft cohort default rate of 25% or more for the three most recent years, the school has 30 calendar days after

the date on which the school received its draft cohort rate information from the Department to challenge the data based on exceptional mitigating circumstances.

- If the school continues to participate in the FFELP during an appeal and the appeal is unsuccessful, the school is required to pay to the Department the amount of interest, special allowance, reinsurance, and any related payments made by the Department with respect to loans that the school certified and delivered more than 30 calendar days after the date the school received notification of the rate from the Department.

- In addition, the Department may determine that a school's appeal is valid under exceptional mitigating circumstances. In this case, a school's appeal must generally be based on the Participation Rate Index or based upon its service to economically disadvantaged students.

These changes are effective for cohort default rates issued by the Department on or after July 1, 2000.

*Common forms:* Use of the common application and promissory note for Stafford loans is discontinued on July 1, 2000, when use of the Federal Stafford Loan Master Promissory Note becomes mandatory. This is effective for Stafford loans certified by the school for any period of enrollment beginning on or after July 1, 2000, and for any loan certified on or after July 1, 2000, regardless of the loan period begin date.

For loans disbursed on or after July 1, 2000, or earlier if the loan was made using the Master Promissory Note (MPN), the following provisions exist:

- The MPN authorizes the lender to defer all of a borrower's FFELP loans based on information indicating that the borrower is enrolled at least half time.

- The MPN authorizes the lender to capitalize accrued interest on all the borrower's FFELP loans, including those made under the MPN.

- The MPN authorizes the lender to align repayment of the borrower's Stafford and SLS loans.

*Consolidation loans:* A Federal Consolidation loan borrower is not eligible for a subsequent consolidation loan unless the borrower meets one of the following conditions:

- The borrower has obtained a new eligible loan after the date the existing Consolidation loan was made.

- The borrower is consolidating an existing Consolidation loan with at least one other eligible loan, regardless of whether it was made before or after the date the existing Consolidation loan was made.

In either case, if the borrower meets all eligibility requirements, any or all outstanding eligible loans may be consolidated, including existing Consolidation loans and loans made before or after any existing Consolidation loan. However, a borrower or a married couple may not reconsolidate a single Consolidation loan. This change is effective for Consolidation loans made on or after July 1, 2000.

If a borrower, or either spouse in the case of a married couple, has FFELP loans held by multiple lenders, consolidation may be requested from any participating consolidation lender, regardless of whether the consolidating lender is a holder of any of the borrower's loans. This is effective for consolidation loan applications received by the lender on or after July 1, 2000, unless implemented earlier by the lender.

*Deferment:* In-school deferments are not bound to the 6-month backdating rule that applies to other types of deferment. The lender must grant an in-school deferment for each eligible period of enrollment and may bill the Department for interest benefits on a subsidized Stafford loan, regardless of the date enrollment began. This change is effective for in-school deferments granted on or after July 1, 2000, unless implemented earlier by the lender. Lenders may implement this provision earlier than the regulatory effective date (but not before October 29, 1999, date of the regulatory change published in the *Federal Register*) to maximize the benefit to FFELP borrowers.

A lender must use any information certified by the school indicating that the borrower is enrolled at least half time in determining the eligibility of a borrower for an in-school deferment. If a lender grants an in-school deferment based on other information certified by the school and the borrower did not request the deferment, the lender must notify the borrower of the in-school deferment. The notification must advise the borrower of the option to pay the interest that accrues on an unsubsidized loan, the option to cancel the deferment and continue paying on the loan, and the consequences of these options. This is effective for in-school deferments granted on or after July 1, 2000, unless implemented earlier by the lender.

A lender may grant an unemployment deferment to a borrower who requests an unemployment deferment and provides to the lender evidence of the borrower's eligibility to receive unemployment benefits. In this case, the borrower need not provide the lender with the common

deferment form or other additional information or documentation. This is effective for unemployment deferments granted on or after July 1, 2000, unless implemented earlier by the lender.

For unemployment deferments, a reference to the Freely Associated States has been added and the reference to the Trust Territory of the Pacific Islands has been deleted, when referring to borrowers residing in and seeking employment in a "state". The Freely Associated States are the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau. This is effective for deferments granted on or after July 1, 2000, unless implemented earlier by the lender.

*Disbursement rules:* A school must cease certifying loans based on exemptions to the multiple disbursement and delayed delivery requirements no later than 30 days after receiving notice from the Department of a FFELP cohort default rate, FDLP cohort default rate, or dual program cohort default rate that causes the school to no longer meet the necessary qualifications for these exemptions. In addition, eligible foreign schools are exempt from the requirement to delay delivery of funds to first-year undergraduate students who are first-time borrowers. These changes are effective for loans certified on or after July 1, 2000, by schools that have received notice from the Department that a cohort default rate causes the school to no longer meet the necessary qualifications.

If requested by the school, a lender may make disbursements after a disbursement has been returned, unless the lender or school has information that the student is no longer enrolled. This change is effective for school requests for disbursements received by the lender on or after July 1, 2000.

*Disclosure requirements:*

- Student Consumer Information – The school must provide consumer information on an annual basis and prior to a student enrolling in or entering into any financial obligation with the school. Information may be provided on an Internet website accessible to the general public. However, an Intranet website, which is accessible only to persons within the school, may not be used to provide information to prospective students. When providing the required information for student athletes, schools should follow the requirements of 34 CFR 668.48. Information provided to these students must also be provided by report to the Department by July 1 each year. A school's student consumer information must include a description of student rights and responsibilities specifically addressing financial assistance under the Title IV programs.

  Information that schools furnish regarding provisions for cancellation, deferment, or forgiveness of FFELP loans must now also indicate the availability of deferment for service in the Peace Corps, service under the Domestic Volunteer Service Act of 1973, or comparable volunteer service for a tax-exempt organization. These changes are effective for consumer information provided by the school on or after July 1, 2000.

- Repayment information – At or before the first disbursement of a Stafford or PLUS loan, the lender must provide the borrower, in a written or electronic format, the following information (in addition to that already required):

  - Information on the availability of income-sensitive repayment. The lender must provide, together or separately, all of the following:

    - A statement that the borrower is eligible for income-sensitive repayment, including through loan consolidation.

    - Procedures by which the borrower may choose income-sensitive repayment.

    - Where and how the borrower may obtain more information on income-sensitive repayment.

  The lender meets the preceding disclosure requirement by providing the borrower with the promissory note and associated materials approved by the Department.

  These changes are effective for initial disclosure notifications issued by the lender to the borrower on or after July 1, 2000.

  A lender may rely on the PLUS promissory note and associated materials approved by the Department to satisfy the requirement to provide the borrower with sample projections of monthly repayment amounts assuming different levels of borrowing and interest accruals. This change is effective for repayment disclosures issued by the lender on or after July 1, 2000.

  A lender must provide to borrowers, at the time repayment options are offered, a telephone number accessible at no cost to the borrower from within the U.S. from which the borrower can obtain additional loan information. A lender may disclose its own toll-free number or an alternative number (for example, a

lender may offer a toll number at which the borrower can call collect; or with the permission of the guarantor, arrange to provide the guarantor's toll-free number). This change is effective for repayment disclosures issued by the lender on or after July 1, 2000.

A lender must offer *all* borrowers the choice of a standard, income-sensitive, graduated, or, if applicable, an extended repayment schedule. In addition, the lender must inform the borrower through repayment notification that he or she is eligible for income-sensitive repayment (including through loan consolidation), the procedures by which the borrower can choose income-sensitive repayment, and where and how more information on income-sensitive repayment may be obtained. These changes are effective for repayment disclosures issued by the lender on or after July 1, 2000.

*Due diligence:* A lender must complete endorser due diligence requirements before filing a default claim, rather than during the delinquency period of the loan. This is effective for default claims for which the first day of delinquency on the oldest outstanding due date is on or after July 1, 2000, unless implemented earlier by the guarantor.

The following expanded requirements are effective for skip tracing initiated by the lender on or after July 1, 2001, unless implemented earlier by the guarantor:

- In performing telephone skip tracing with the financial aid administrator or other school official, lenders must direct written or telephone contact to the school identified on the most recent school certification or the most recent loan application.

- In performing address skip tracing, lenders must contact the schools in the borrower's loan file. This contact should be with the financial aid administrator or other school official who may reasonably be expected to know the borrower's address.

The period during which a lender must submit a request for default aversion assistance from a guarantor is defined as the Default Aversion Assistance Request (DAAR) period. This period begins no earlier than the 60th day and ends no later than the 120th day of the borrower's delinquency. If a lender fails to request default aversion during the DAAR period, and the lender later submits a claim on that loan, the lender is subject to an interest penalty. If the lender fails to file a request by the 330th day, it will not be entitled to receive interest, interest benefits, and special allowance for the 270 days immediately preceding the date on which the loan defaulted. After initially submitting a default aversion assistance request, a lender must provide any additional information requested by the guarantor or resubmit any rejected default aversion assistance request. This change is effective for loans for which the first day of delinquency on the oldest outstanding due date is on or after July 1, 2000, unless implemented earlier by the guarantor.

Due diligence requirements for lenders are expanded for loans for which the first day of delinquency on the oldest outstanding due date is on or after July 1, 2000, unless implemented earlier by the guarantor, as follows:

- The lender must continue due diligence efforts, urging the borrower to make the required loan payments between the 181st and 270th days of delinquency (between the 241st and 330th day of delinquency for loans payable in installments less frequent than monthly). Efforts made after the final demand letter has been sent must support the final demand, although these efforts are no longer restricted to diligent efforts to contact the borrower by telephone.

- The lender must mail the final demand letter when the loan becomes 241 or more days delinquent (301 or more days delinquent for loans payable in installments less frequent than monthly).

In at least one of the collection activities required of lenders under 34 CFR 682.411, the lender must inform the borrower of the availability of the Department's Student Loan Ombudsman's office. This is effective for loans with a first day of delinquency on the oldest outstanding due date that is on or after July 1, 2000.

*Eligibility – borrower and student:* Students convicted of the possession or sale of an illegal drug may not be eligible for Title IV funds. The Department determines the borrower's eligibility under this subsection based on the student's self-certification on the Free Application for Federal Student Aid (FAFSA). The school is notified of the student's eligibility on the Institutional Student Information Record (ISIR). However, if the financial aid office has conflicting information regarding a drug conviction that affects the student's eligibility, this discrepancy must be resolved. This is effective for student eligibility determinations made for award years beginning on or after July 1, 2000.

A student enrolled in correspondence courses is eligible to receive Title IV assistance only if the correspondence courses are part of a program that leads to an associate, bachelor's, or graduate degree. A student enrolled in a telecommunications course at an institution of higher

education is not considered to be enrolled in a correspondence course, if both of the following criteria apply:

- The student is enrolled in a program that leads to a certificate for a program of study of one year or longer, or to an associate, bachelor's, or graduate degree.

- The number of telecommunications and correspondence courses the school offered during its most recently completed award year was fewer than 50% of all the courses the school offered during the same year.

These changes are effective for award years beginning on or after July 1, 2000, unless implemented earlier by the school.

*Eligibility – school:* A branch campus may apply for participation as a main campus or freestanding institution if the branch campus of an eligible school has been in existence for at least two years following its certification by the Department as a branch campus. This is effective for branch campuses that apply for designation as a main campus or a freestanding institution on or after July 1, 2000, unless implemented earlier by the school.

A school no longer meets the definition of an eligible institution if the percentage of regularly enrolled students who are incarcerated is more than 25%, or if the percentage of regularly enrolled students who do not have a high school diploma or its equivalent is more than 50%. The Department may offer a waiver of the limit on the percentage of incarcerated students if the school is a nonprofit institution that provides 2-year or 4-year educational programs for which it awards an associate or bachelor's degree, or a postsecondary diploma. This is effective for school compliance with the definition of an eligible institution on or after July 1, 2000.

A proprietary school must receive no more than 90% of its revenues from Title IV funds. This calculation must be based on the school's most recently completed fiscal year. This is effective for revenues received by proprietary schools for fiscal years beginning on or after July 1, 2000, unless implemented earlier by the school on or after October 7, 1998.

A school may be prohibited from delivering Title IV funds to students if a school's Program Participation Agreement (PPA) expires or if a school undergoes a change in ownership resulting in a change of control or when a school changes status as a nonprofit, for-profit, or public school. Provisions regarding the expiration of the school's Program Participation Agreement are effective retroactively to the implementation of the *Common Manual*. Provisions relating to a change of ownership resulting in a change in control are effective for Program Participation Agreements initiated on or after July 1, 2000, and Provisional Certifications granted by the Department on or after October 29, 1999.

*Entrance counseling:* Schools must include an explanation of the use of the MPN when conducting entrance counseling, and are authorized to use interactive electronic means as a method to conduct entrance counseling. Electronic means must be interactive, which at a minimum require schools to take reasonable steps to ensure that each borrower receives the counseling materials and participates in and completes the counseling. This change is effective for entrance counseling conducted by the school on or after July 1, 2000, unless implemented earlier by the school.

Effective for entrance counseling conducted by the school on or after July 1, 2000, unless implemented earlier by the school, the Department stipulates that a school must:

- Explain the use of the Master Promissory Note.

- Emphasize to the student the seriousness and importance of the repayment obligation the student is assuming.

- Describe in forceful terms the likely consequences of default, including adverse credit reports and litigation.

- Except for a student who receives a loan made or originated by the school, the school must emphasize that the student is obligated to repay the full amount of the Stafford loan, even if the student does not complete the program, is unable to obtain employment upon completion, or is otherwise dissatisfied with or does not receive the educational or other services that the student purchased from the school.

In an effort to improve a student's understanding of his or her loan repayment obligation, the Department recommends that the school provide additional information as outlined in Appendix D of 34 CFR 668 and the *Federal Student Aid Handbook* as part of the entrance counseling.

*Exit counseling:* The following are new regulatory requirements for exit counseling for students who cease half-time attendance on or after July 1, 2000, unless implemented earlier by the school:

- Schools may use audiovisual or interactive electronic means to conduct exit counseling.

- Schools may provide exit counseling materials to study-abroad students by mail.
- Schools may use interactive electronic means for students who withdraw or fail to complete exit counseling.
- Schools are now required to provide the information listed in regulations and in subsection 4.9.C of the *Common Manual*.
- Schools must inform students with SLS loans that refinancing of SLS loans is available.
- Schools must explain conditions for full cancellation of the loan, as well as partial cancellation.
- Schools must provide each student with information about the Department's Student Loan Ombudsman's office.
- Schools must explain the use of the Master Promissory Note.
- Schools must take reasonable steps to ensure that the student receives, participates in, and completes exit counseling if it is conducted by interactive electronic means.

*False certification loan discharge:* When requesting a false certification loan discharge, borrowers are no longer required to certify that a reasonable attempt was made to obtain employment in the occupation for which the program was intended to provide training. This change is effective for false certification loan discharge requests received by the lender on or after July 1, 2000.

*Federal reporting:* If a lender owes origination fees or lender loan fees, the lender must submit ED Form 799 to the Department even if the lender is not owed or does not wish to receive interest benefits or special allowance payments.

*Forbearance:* A lender may grant an administrative forbearance to resolve an outstanding delinquency that precedes an administrative forbearance granted for a natural disaster, and that precedes a mandatory administrative forbearance granted for military mobilization, local or national emergency, or a designated disaster. This change is effective for disaster-related administrative forbearance and mandatory administrative forbearance granted for military mobilization, local or national emergency, or a designated disaster area on or after July 1, 2000.

A lender may grant subsequent periods of administrative forbearance, not to exceed 60 days each, if the lender determines that it is warranted in order to collect or process supporting documentation following a borrower's request for a deferment, forbearance, change in repayment plan, or loan consolidation. The lender may grant a new administrative forbearance period for each occurrence. The lender must document the reasons for granting each forbearance of this type in the borrower's loan history. This change is effective for subsequent administrative forbearances granted in order to collect and process supporting documentation following a borrower's request for a deferment, forbearance, change in repayment plan, or loan consolidation on or after July 1, 2000.

*Grace period:* A borrower who is called or ordered to active duty may receive multiple extensions of the grace period and no single extension may exceed 3 years. A borrower's full grace period is restored at the end of this period. This change is effective for second and subsequent notifications of active duty status received by the lender on or after July 1, 2000.

*Holder:* An eligible lender owning a FFELP loan is the new definition of a "holder." This change is effective July 1, 2000.

*Inducements:* Lenders are authorized to provide assistance to schools comparable to the kinds of assistance provided by the Department to schools under, or in furtherance of, the FDLP. This change is effective for assistance provided by lenders to schools on or after July 1, 2000, unless implemented earlier by the lender.

*Interest payment and capitalization:* For subsidized and unsubsidized Stafford loans first disbursed on or after July 1, 2000, the lender may capitalize interest only when the loan enters repayment, when a deferment ends, when a forbearance ends, and when the loan defaults.

*Interest subsidy:* For Federal Consolidation loans made from applications received by lenders on or after November 13, 1997, the portion of the loan that is eligible for interest subsidy is the portion that repaid any subsidized FFEL or Direct loan. This is effective for Consolidation loan applications received by the lender on or after July 1, 2000, unless implemented earlier by the lender.

*Late disbursement/post-withdrawal disbursement:* A post-withdrawal disbursement is a disbursement made to a student who has withdrawn, but who has earned more aid than has been disbursed. If the student has earned more Title IV aid than has been disbursed and is otherwise eligible to receive funds, the school must deliver a post-withdrawal disbursement to the student (or parent, in the

case of a PLUS loan). No return of funds is required when the student is eligible to receive a post-withdrawal disbursement. The school may credit all or a portion of the post-withdrawal disbursement to the student's account, up to the amount of outstanding charges. To assist schools, the Department has provided a Post-Withdrawal Disbursement Tracking Sheet.

A post-withdrawal disbursement is different from a late disbursement in the following ways:

- The school is required to offer an eligible borrower a post-withdrawal disbursement, and if accepted, to deliver the post-withdrawal disbursement.
- The post-withdrawal disbursement must be made from available Title IV grant funds before available loan funds.
- The 90-day period for the school to deliver the post-withdrawal disbursement is calculated from the date of the school's *determination* that the student withdrew rather than from the student's withdrawal date.

If the student is eligible for a post-withdrawal disbursement, it must be offered to the student within 30 days of the date of determination. If any amount of a post-withdrawal disbursement remains after the student's institutional charges are paid, the school must offer that amount to the borrower within 30 days of determining that the student withdrew. The school must provide a written notice to the borrower regarding the funds to be delivered.

*Leave of absence:* Federal regulations effective July 1, 2000, provide for implementation of these changes on or before October 7, 2000. If a school chooses to implement these regulations prior to October 7, 2000, it must implement them in their entirety.

A leave of absence is an approved leave if the following conditions are met:

- The school has a written policy regarding leaves of absence that is publicized to students and that requires a written, signed, and dated request from the student prior to the leave of absence.
- The student has requested the leave of absence according to the school's policy, and the school has approved the leave.
- The leave of absence does not involve additional charges by the school to the student.
- Upon return, the student is permitted to complete the coursework he or she began prior to the leave of absence.
- The leave of absence does not exceed 180 days in any 12-month period. The 12-month period begins on the first day of the student's leave of absence (or initial leave of absence, if applicable).
- Prior to granting the leave, the school explains to the student the effects that the student's failure to return from a leave of absence may have on repayment of the student's loans, including the depletion of some or all of the student's grace period.

In any 12-month period, the school should grant no more than one leave of absence to each student, except in the following situations:

- One subsequent leave of absence may be granted if the leave of absence does not exceed 30 days and the school determines that it is necessary due to unforeseen circumstances.
- Subsequent leaves of absence may be granted for jury duty, military reasons, or circumstances covered under the Family and Medical Leave Act of 1993. The school must document the reason for each subsequent leave of absence.

The total number of days of all leaves of absence may never exceed 180 days in any 12-month period.

The last date of attendance for students who fail to return from an approved leave of absence is based upon whether the school is required to take attendance. For schools required to take attendance, the last date of attendance is the last date of academic attendance reflected in the school's attendance records. For schools not required to take attendance, the last date of attendance is the date the student began the leave of absence.

*Lender of last resort:* A student is entitled to receive Stafford loans under the Lender of Last Resort (LLR) program if the student is eligible to participate in the FFELP and meets all of the following conditions:

- The student qualifies for interest benefits.
- The student is eligible for a combined subsidized and unsubsidized Stafford loan amount of at least $200.

- The student is otherwise unable to obtain loans from another eligible lender for the same period of enrollment or is attending a school that has been designated an LLR school.

In addition, an LLR may offer unsubsidized Stafford loans and PLUS loans through LLR programs to eligible borrowers who have been otherwise unable to obtain those loans from another eligible lender. Within 60 days of receiving a complete request from the borrower for an LLR loan, the guarantor must respond to the borrower with an approval or denial. If the LLR loan is approved, the guarantor will either serve as the lender or designate an eligible lender to make the LLR loan. This is effective for loan applications received by the LLR on or after July 1, 2000.

*Loan sales and transfers:* A school may request that the lender assign the original or a true and exact copy of the promissory note to the school in those cases where a school repays the entire loan amount for an ineligible borrower. This revision is effective for all loans made using a Master Promissory Note (MPN) for any period of enrollment beginning on or after July 1, 2000, and for any loan certified on or after July 1, 2000, regardless of the loan period begin date.

*Origination fee:* The lender must ensure that origination fees are assessed equally to all Stafford borrowers who reside in a particular state or who attend school in that state. The exception is that the lender may charge a lesser fee to a Stafford borrower who demonstrates "greater financial need" based on any one of the following qualifications:

- The borrower's expected family contribution (EFC), used to determine loan eligibility, is equal to or less than the maximum qualifying EFC for a Federal Pell Grant at the time the loan is certified.

- The borrower qualifies for a subsidized Stafford loan.

- The borrower meets a comparable standard approved by the Department.

If a lender charges a lesser origination fee to a Stafford borrower who has been determined by the lender to have a "greater financial need," the lender must charge all such borrowers who reside in that state or attend school in that state the same origination fee. In addition, if the lender charges the borrower a lesser origination fee on an unsubsidized Stafford loan, the lender must charge the borrower the same fee on a subsidized Stafford loan. These changes are effective for fees owed by the lender on or after July 1, 2000.

*Program Participation Agreement:* The following are additional requirements for schools that are completing a program participation agreement:

- A school located in a state not covered by section 4(b) of the National Voter Registration Act (commonly known as the Motor Voter Registration Act) is required to make a good faith effort to mail a voter registration form to each enrolled student who is physically in attendance at the school and to make the forms widely available. This requirement includes elections for a state's governor or other chief executive or for federal office elections.

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

- A FFELP-participating school undergoing a change of ownership that results in a change in control may be required to use a default management plan approved by the Department for at least the first two years following the change.

A school must submit a default management plan if it is seeking to re-establish eligibility based on a change in ownership that resulted in a change of control or if the school has a cohort default rate greater than 10%. This is effective for program participation agreements initiated on or after July 1, 2000, and provisional certifications granted by the Department on or after October 29, 1999.

*Record retention:* The list of required documentation that must be retained by the lender has been expanded to include all of the following:

- Documentation of any Master Promissory Note (MPN) Confirmation or Notification process or processes.

- A copy of the loan application, if a separate application was provided to the lender.

- A copy of the signed promissory note. The original or a true and exact copy of the promissory note must be retained until the loan is paid in full or assigned to the Department.

For loans made under a MPN, these changes are effective upon disbursement. For all other loans, changes apply to the lender's retention of the application and promissory note on or after July 1, 2000.

A lender must retain loan records for a period of not less than:

- 3 years after the date the loan is paid in full by the borrower.
- 5 years after the date the lender receives payment in full from any other source.

When a loan is paid in full by the borrower, the lender must either return the original promissory note or a true and exact copy of the promissory note to the borrower, or notify the borrower that the loan is paid in full. Revised policy deletes the requirement that any paid-in-full notification to the borrower be made by an alternative procedure acceptable under state law. Revisions regarding record retention time frames are effective for loan records retained by the lender on or after July 1, 2000. Revisions regarding lender notification that a loan has been paid in full by the borrower are effective for loans paid in full on or after July 1, 2000, unless the lender implements this provision earlier for loans made under an MPN.

Record-keeping requirements for schools are revised as follows:

- A school must retain a copy of the MPN certification, or certification data if submitted electronically.
- A school must retain the cost of attendance, estimated financial assistance, and expected family contribution (instead of records of the calculations used to determine the loan amount).
- A school must retain a record of any MPN Confirmation or Notification process it used.
- The requirement that the school retain the name and address of the lender for each loan certified has been removed.

This change is effective for loan application/certification-related records maintained for loans certified on or after July 1, 2000, unless implemented earlier by the school as a result of initiating the MPN process.

*Status changes and reporting:* The in-school period end date for students enrolled in correspondence programs is the earliest of:

- The date the student borrower completes the program.
- The date of withdrawal.
- 60 days from the last day for completing the program, as established by the school.

The one-time provision by which a correspondence school was allowed to restore the student's in-school status if the student failed to submit an assignment has been deleted. These changes are effective for in-school period end dates determined by the school on or after July 1, 2000.

Effective for official and unofficial withdrawal determinations made by the school on or after October 7, 2000, unless implemented earlier by the school on or after November 1, 1999, a student who leaves school or fails to return to school as expected is considered to have withdrawn. The school must determine the withdrawal date and report that date to the lender or guarantor. For the purposes of reporting enrollment status and deferment information, if a student does not return for the next scheduled term following a summer break or a period of summer bridge deferment (including periods during which classes are offered but attendance is not required), the school must determine the student's withdrawal date within 30 days after the first day of the next scheduled term. For any student for whom the school is required to take attendance, the withdrawal date is the student's last recorded date of academic attendance, as determined by the school from its attendance records. If such a student does not resume attendance by the end of an approved leave of absence at the school, or takes an unapproved leave of absence, the withdrawal date is the student's last recorded date of academic attendance. The school must maintain documentation of the withdrawal date, beginning on the date the school determines that the student withdrew.

A school that is not required to take attendance must describe its withdrawal process to students and designate the persons or offices the student must contact to provide official notification of withdrawal. If the student provides notice of his or her intent to withdraw, the withdrawal date is the earlier of the following:

- The date the student began the school's withdrawal process.
- The date the student provided official notification to the school, in writing or orally, of his or her intent to withdraw.

If the student does not initiate the withdrawal process, the withdrawal date is one of the following:

- The midpoint of the payment period (or period of enrollment, if applicable).

- The date the student began a leave of absence if the student fails to return from an approved leave of absence or takes an unapproved leave of absence.

- The school may use certain alternatives to these methods of determining the withdrawal date when a student does not initiate the withdrawal process.

If the student does not provide official notice of his or her intent to withdraw to a school that is not required to take attendance, the school must determine the student's withdrawal date within 30 days after the last day of the earliest of:

- The period of enrollment for which the student has been charged.

- The academic year during which the student withdrew.

- The educational program from which the student withdrew.

The school may allow a student to rescind his or her official notification to withdraw one time if the student signs a written statement that he or she is continuing to participate in academically related activities and intends to complete the payment period or period of enrollment, as applicable. The school must report the withdrawal date to the lender. This date determines the beginning of the student's grace period. A withdrawal date must consist of a month, day, and year.

*Unpaid refund discharge:* If the lender learns that an open school did not pay a required refund, the lender must provide the borrower a discharge request form and an explanation of the qualifications and procedures for obtaining a discharge. The lender must also promptly suspend any collection activities on the loan for at least 60 days or until the lender receives the guarantor's determination, whichever is earlier. To qualify for an unpaid refund discharge, a borrower must complete, certify, and submit to his or her lender or guarantor a written request and a sworn statement (notarization is not required), made under penalty of perjury. The guarantor may, with the Department's consent, grant an unpaid refund discharge without a borrower's request if the guarantor determines, based on information in the guarantor's possession, that the borrower qualifies for a discharge. If the lender does not receive the borrower's completed discharge request within 60 days of the date on which the lender sent the request to the borrower, the lender must resume collection activities and grant a forbearance for the period when collection activities were suspended. Any interest accrued and not paid during this period may be capitalized. If the lender receives the borrower's unpaid refund discharge request more than 60 days from the date on which the lender sent the request to the borrower, the lender may grant an additional administrative forbearance on any affected loan. The unpaid refund provisions are effective for completed unpaid refund discharge requests received by the lender or guarantor and unpaid refund allegations received by the school on or after July 1, 2000.

For an unpaid refund discharge request for a closed school, the guarantor is required to purchase an approved discharge request or return the request to the lender within 45 days. For an unpaid refund discharge request for an open school, the guarantor may take up to 120 days to resolve the unpaid refund with the school. The guarantor is required to purchase an approved discharge request or return it to the lender within 45 days from the date the eligibility determination is made. These time frames are effective for unpaid refund discharges granted on or after July 1, 2000, for loans disbursed, in whole or in part, on or after January 1, 1986.

### October 2000

*Consolidation loans:* The following changes apply to Consolidation loans made using the common Consolidation loan forms approved for use by the Department in October 2000:

- Married couples applying for a spousal consolidation loan no longer need to complete a separate form, but must complete all applicable sections of the common Consolidation loan forms, including those that apply to spousal consolidation.

- The borrower's authorization for the release of information is now included on the application and promissory note.

- A borrower must certify that he or she does not owe an overpayment on a Pell, SEOG or LEAP Grant and that all loans being consolidated were used to finance the education of the borrower, the borrower's spouse, or the borrower's child.

- Borrowers who wish to add eligible loans to a Consolidation loan must complete and return the *Request to Add Loans* form to the lender so that the lender receives it within 180 days of the date the original Consolidation loan was made. In addition, the lender must disclose new repayment terms to the borrower, if the terms of the borrower's Consolidation loan change due to the addition of loans within the 180-day add-on period.

**October 1, 2000**

The Department publishes Dear Partner Letter GEN-01-06, which provides voluntary standards for lenders to use for electronic signatures in electronic student loan transactions. The voluntary standards protect lenders from loss of guarantee, federal interest benefits, and special allowance payments if a loan is determined to be legally unenforceable based solely on the processes used for the electronic signature or related records. If a lender's processes for electronic signatures and related records do not satisfy these standards and a loan is held by a court to be unenforceable based solely on these processes, the Department will determine on a case-by-case basis whether federal benefits will be denied or paid. A lender is not protected from these losses on loans made using electronic signatures in electronic student loan transactions to students attending foreign schools even if the lender complies with these standards. This guidance is effective for FFELP documents signed electronically by the borrower on or after October 1, 2000.

**October 7, 2000**

*Leave of absence:* "Leave of absence" is defined as a status in which the student is considered to be continuously enrolled for Title IV program purposes. Effective for official and unofficial withdrawal determinations made by the school on or after October 7, 2000, unless implemented earlier by the school on or after November 1, 1999.

*Payment period:* For an eligible program that combines a series of modules into a semester, trimester, or quarter and measures progress in credit hours, the payment period includes all of the modules the student was scheduled to attend in the semester, trimester, or quarter beginning with the module that included the student's first day of attendance. Effective for official and unofficial withdrawal determinations made by the school on or after October 7, 2000, unless implemented earlier by the school on or after November 1, 1999.

*Return of Title IV funds:* Effective for official and unofficial withdrawal determinations made by the school on or after October 7, 2000, unless implemented earlier by the school on or after November 1, 1999:

- If a student is enrolled in a clock-hour program where scheduled hours are used to determine the percentage of aid earned in the return of Title IV funds calculation, then a student does *not* earn 100% of his or her Title IV aid if the percentage of the payment period or period of enrollment completed exceeds 60%.

- The amount of Title IV loan and grant aid earned by the student equals the amount of aid that was delivered to the student plus the amount of aid that could have been disbursed or delivered during the payment period or period of enrollment, multiplied by the calculated percentage of Title IV aid earned. The amount of Title IV loan and grant aid that is unearned and must be returned is equal to the total amount of disbursed Title IV aid minus the amount of Title IV aid that has been earned.

- Institutional charges used in the return of Title IV funds calculations are always the institutional charges that were initially assessed the student for the payment period or period of enrollment, unless the school adjusted the student's institutional charges before the student withdrew (e.g., tuition was adjusted for a change in enrollment status). If the school waives all or some of the tuition and fees for certain students, the waiver of tuition and fees under the return of Title IV funds requirements must be consistent with the required treatment of the waiver for purposes of calculating the student's cost of attendance for Title IV purposes.

A new method of performing withdrawal calculations (replacing the pro rata refund policy), called the "return of Title IV funds" specifies changes in the granting of leaves of absence, determination of withdrawal dates, and in the order in which funds are to be returned to the Title IV aid programs. Federal regulations effective July 1, 2000, provide for implementation of these changes on or before October 7, 2000. If a school chooses to implement these regulations prior to October 7, 2000, it must implement them in their entirety.

A school must return Title IV program funds for which the school is responsible no later than 30 days after the date on which the school makes the determination that the student has withdrawn, or the "date of determination."

- **Calculations**

  For each Title IV aid recipient who withdraws, the school must calculate the amount of Title IV assistance the student has earned. This amount is based on the length of time the student was enrolled. The school must return any portion of unearned Title IV funds for which the school is responsible. The school must also advise the student of the amount of unearned Title IV grant aid that he or she must return, if applicable. The student (or parent, in the case of a PLUS loan) must repay any unearned funds that the school was not responsible to return according to the normal terms of

the loan. To assist schools, the Department has provided Return of Title IV Funds worksheets. The school must provide to enrolled and prospective students a copy of any refund policy with which the school is required to comply and that addresses the refund of tuition and fees or other refundable costs paid by the student. The written policy must include the requirements and procedures a student should follow to officially withdraw from the school. The school must also provide a summary of the federal requirements for the return of Title IV funds.

- **Return Amounts for Title IV Grant and Loan Programs**

  If a student has completed more than 60% of the payment period, he or she is considered to have earned 100% of the Title IV grant and loan aid received for the payment period. In this case, no funds need to be returned to the Title IV aid programs. However, if a student withdraws before completing more than 60% of the payment period or period of enrollment, the amount of any Title IV grant and loan aid the student received for the payment period or period of enrollment must be recalculated to reflect the portion of the payment period that he or she completed prior to withdrawal. The unearned Title IV grant and loan aid for the percentage of the payment period not completed must be returned to the applicable Title IV aid programs.

  Calculations for the return of Title IV funds may be based upon the period of enrollment. Schools must consistently use either the payment period or the period of enrollment as the basis for all calculations for the return of Title IV funds for the following categories of students:

  – Students who have attended an educational program from the beginning of the period of enrollment or payment period.

  – Students who re-enter the school during a period of enrollment or payment period.

  – Students who transfer into the school during a period of enrollment or a payment period.

- **Percentage of Title IV Aid Returned**

  For programs measured in credit hours, the total number of calendar days the student completed is divided by the total number of calendar days in the payment period or period of enrollment. For programs measured in clock hours, the total number of clock hours the student completed is divided by the total number of clock hours in the payment period or period of enrollment.

  The order in which unearned funds must be returned has been changed. Schools must ensure that returned funds are applied to eliminate outstanding balances on loans and grants for the payment period, or period of enrollment, in the following order:

  – Unsubsidized Stafford loans
  – Subsidized Stafford loans
  – Direct Unsubsidized Stafford loans
  – Direct Subsidized Stafford loans
  – Federal Perkins Loans
  – PLUS loans received on behalf of the student
  – Direct PLUS loans received on behalf of the student
  – Federal Pell Grants
  – Federal SEOG Program aid
  – Other Title IV grant or loan assistance

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

  The July 1, 2000 regulations provide that these changes are effective for Title IV recipients who withdraw on or after October 7, 2000, unless implemented earlier by the school on or after November 1, 1999. If a school chooses to implement these regulations prior to October 7, 2000, it must implement them in their entirety.

*Status changes and reporting:* Effective for official and unofficial withdrawal determinations made by the school on or after October 7, 2000, unless implemented earlier by the school on or after November 1, 1999:

- The school must maintain documentation of the withdrawal date as of the date the school determines the student withdrew, and must report the withdrawal date to the lender. This date determines the beginning of the borrower's grace period or repayment period. A withdrawal date must consist of month, day, and year.

- A school must describe its withdrawal process to students, including those actions which constitute the “beginning” of the withdrawal process, and designate one or more offices the student must contact to provide official notification of withdrawal. The school may allow a student to rescind his or her official notification

to withdraw if the student signs a written statement that he or she is continuing to participate in academically related activities and intends to complete the payment period or period of enrollment, as applicable. If the student subsequently fails to attend or ceases attendance without completing the payment period or period of enrollment, the student's withdrawal date is the original date of notification of intent to withdraw, unless the school records a later date on which the student participated in an academically related activity.

### November 8, 2000

*Delivering loan funds:* Dear Partner Letter (DPL) GEN-00-18 published November 8, 2000, provides procedures a school should use to ensure that it does not deliver FFELP loan funds to students who are ineligible due to an unresolved overpayment of Title IV funds or an unresolved default on a Title IV loan. In all cases, the school must retain documentation that clearly substantiates its determination that a prior overpayment or default has been resolved. Documentation that the reporting entity has "no record" of the prior overpayment or default is not considered adequate for the release of FFELP funds. This change is effective for loans certified by the school on or after November 8, 2000.

### December 1, 2000

*Return of Title IV funds:* A school may include funds from a second or subsequent disbursement of FFELP funds as aid that could have been disbursed when completing return of Title IV funds calculations if the school would have been permitted to deliver the funds on or before the date the student withdrew. This provision is effective for return of Title IV funds calculations completed on or after December 1, 2000.

## 2001

### January 1, 2001

*Death discharge:* PLUS loan borrowers, who were not eligible for discharge due to the fact that the student for whom they obtained the PLUS loan died prior to July 23, 1992, are now eligible for discharge. This change is effective for PLUS loan death claims based on the student's death occurring prior to July 23, 1992 and filed by the lender within 60 days of determining or redetermining eligibility on or after January 1, 2001, unless implemented earlier by the guarantor.

*Interest payment and capitalization:* A lender may capitalize interest accrued from the date a claim is paid through the date the claim is later repurchased—regardless of whether the lender or guarantor initiated the repurchase. In all cases, the lender must document the reason for capitalization in the borrower's loan record. This change is effective for repurchase transactions completed on or after January 1, 2001, unless implemented earlier by the guarantor.

### January 5, 2001

*Common forms:* The Common Claim Initiative (CCI) establishes new, standard formats for lenders to use when requesting default aversion assistance and claim reimbursement. To standardize the default aversion assistance request process for lenders, the *Common Manual* guarantors have adopted a common Default Aversion Assistance Request Form and related common policies.

A guarantor establishes the date on which it is ready to trade CCI electronic records with its trading partners (i.e., lenders and servicers). This date is referred to as the "G" date. All guarantor "G" dates will be established based on the final publication of the CCI electronic formats, with one "G" date for default aversion assistance and another "G" date for claims. The final "G" date for implementing the Default Aversion Assistance Request Form and its related policies was January 5, 2001.

### June 29, 2001

*Period of enrollment:* The maximum period of enrollment for which the school can certify a loan for a defaulted borrower whose eligibility to borrow FFELP loans has been reinstated during the current academic year is the academic year during which the borrower regained eligibility, unless the borrower is not eligible for other reasons. This provision is effective for loans certified by the school on or after June 29, 2001.

### July 1, 2001

*Claim filing requirements:* Effective for claim documentation submitted by the lender on or after July 1, 2001, the lender must submit either the original promissory note or a copy of the promissory note certified by the lender as "true and exact" rather than the previously required "true and accurate."

An original or certified copy of the death certificate is the only acceptable proof of death documentation permitted for death claims. In the event of an exceptional circumstance and on a case-by-case basis, the guarantor's chief executive officer (CEO) may approve a discharge based on other

reliable documentation. This change is effective for death claims filed by the lender on or after July 1, 2001, unless implemented earlier by the guarantor.

*Cohort default rates:* Substantive regulatory and policy changes effective for cohort default rates calculated on or after July 1, 2001, are as follows:

- A school will lose eligibility to participate in the FFELP and the FDLP 30 days after receiving notice that its official cohort default rate for the most recent fiscal year exceeds 40%, unless the school appeals or requests an adjustment to that rate. The loss of eligibility is applicable to the remainder of the fiscal year in which the notice is received and the next 2 fiscal years.

- A school will lose eligibility to participate in the FFELP, the FDLP, and the Federal Pell Grant Program 30 days after receiving notice that its three most recent official cohort default rates equal or exceed 25%, unless the school appeals or requests an adjustment to that rate. The loss of eligibility is applicable to the remainder of the fiscal year in which the notice is received and the next 2 fiscal years.

- Any school may appeal its most recent cohort default rate based on improper servicing and collection. A school subject to an initial loss of eligibility may appeal any cohort default rate upon which the loss of eligibility is based. A school subject to an extended loss of eligibility may appeal only its most recent official cohort default rate.

- A school subject to provisional certification may appeal its cohort default rate using the erroneous data appeal.

- The calculation of the Participation Rate Index (PRI) challenge or appeal has been expanded to address schools with a single cohort default rate over 40%. A school that is subject to a loss of FFELP eligibility may use the PRI appeal based on either of the following conditions:

  – The school has one cohort default rate over 40% and the PRI for that cohort's fiscal year is less than or equal to 0.06015.

  – The school has three consecutive cohort default rates of 25% or more and the PRI for any one of the three cohorts' fiscal years is less than or equal to 0.0375.

- A school remains accountable for the consequences of a high official cohort default rate after its merger with or acquisition of another school, or after a branch campus becomes a separate, freestanding school.

- Any school that merges with or acquires another school and that is otherwise eligible to participate in the FFELP loses FFELP eligibility based on a single official cohort default rate greater than 40% or equal to or greater than 25% for each of its three most recent official cohort rates if all of the following criteria apply:

  – Both schools are parties to a transaction that results in a change in structure or identity.

  – The FFELP-eligible school offers an educational program at substantially the same address as that at which the FFELP-ineligible school offered programs before the change in structure or identity.

  – There is a commonality of ownership or management between the two schools.

- A school subject to a loss of eligibility due to a single cohort default rate exceeding 40% may submit an “average rate appeal” if at least two of the school's three most recent cohort default rates of 25% or more are calculated at an average rate, and at least two of those rates would be less than 25% if calculated for the applicable fiscal year alone.

- All references to “days” in cohort default rate regulations are changed to refer to calendar days. Previously, various time frames and deadlines carried their own specific definition of days, sometimes “business days” and sometimes “calendar days.”

- All references to the “weighted average cohort default rate” have been changed to the “dual-program cohort default rate,” as the latter term is the one used by the Department in its publications.

- References to the Department's *Draft Cohort Default Rate Guide* and *Official Cohort Default Rate Guide* are replaced with a reference to the *Cohort Default Rate Guide*. It is the Department's intention to consolidate both the draft and official information into a single publication that will be updated annually.

*Deferment:* Documentation requirements are made more flexible for a borrower who wants to continue an unemployment deferment based on his or her search for employment following the initial period of deferment. The information provided showing that the borrower made at least six diligent attempts to secure full-time employment during the prior 6-month period must be acceptable to the lender and may include the employer's name, address, telephone number, and electronic addresses. This flexibility applies to unemployment deferments granted on or after July 1, 2001.

Lenders must use evidence of the borrower's "monthly income," rather than "total monthly gross income," when determining a borrower's eligibility for an economic hardship deferment. "Monthly income" is defined as the gross amount of income received by the borrower from employment and other sources, or one-twelfth of the borrower's adjusted gross income, as recorded on the borrower's most recently filed federal income tax return. There is no longer a difference in required documentation for an initial and a subsequent economic hardship deferment. Any retroactive period of economic hardship granted under this revised policy must include July 1, 2000, or a later date. This deferment may be granted for periods of up to 1 year at a time and may be renewed for a total that, collectively, does not exceed 3 years. For a borrower who is serving as a volunteer in the Peace Corps, the deferment may be granted for the lesser of the borrower's full term of service or the borrower's remaining period of economic hardship deferment eligibility under the 3-year maximum. In all cases, the lender must ensure that the borrower's required documentation supports the begin date of the economic hardship period. This change is effective for economic hardship deferments granted by the lender on or after July 1, 2001.

The 6-month backdating restrictions are removed from all deferments except the initial unemployment deferment. An initial unemployment deferment based on a borrower's self-certification may not begin more than 6 months before the date the lender receives a request and documentation required for the deferment. Any extension of an existing unemployment deferment or an unemployment deferment that is based on evidence of the borrower's eligibility for unemployment benefits is not subject to the 6-month backdating restriction. For all deferment types, other than an in-school deferment, elimination of the 6-month backdating restriction is only applicable for deferments granted on or after July 1, 2001, for any period of deferment that includes July 1, 2001, or a later date.

*Delivering loan funds:* The prescriptive process that required a school to confirm a borrower's eligibility prior to delivering each disbursement is removed. The revised policy clarifies that a school may deliver the proceeds of any loan disbursement only if it determines that the student has maintained continuous eligibility for the loan period certified by the school. This change is effective July 1, 2001.

A school may not deliver Stafford or PLUS loan proceeds to a student or parent of a student who previously attended another eligible school until the school determines, from information obtained from the National Student Loan Data System (NSLDS) or its successor system, that the student meets eligibility requirements pertaining to his or her financial aid history. For a student who transfers from one school to another during the same award year (i.e., a current-year transfer student), the school the student is attending must request or access through the NSLDS updated information about that student in order to determine the student's eligibility for Stafford or PLUS loan proceeds. The school must wait for 7 days following a request to the NSLDS before delivering Stafford or PLUS loan proceeds. However, if, before the end of 7 days, the school receives the information from the NSLDS in response to its request or obtains that information itself by directly accessing the NSLDS, the school may deliver the loan proceeds as long as the student is otherwise eligible. Schools may no longer delay delivery of loan proceeds by 45 days while waiting for paper financial aid transcripts to arrive. These changes are applicable to Stafford and PLUS loan funds delivered by the school on or after July 1, 2001.

A school with a program measuring academic progress in credit hours, but not using a standard semester, trimester, or quarter system, may deliver loan proceeds in each term as long as the terms are substantially equal in length throughout the loan period. Terms within a loan period will be considered substantially equal in length if no term in the loan period is more than two weeks longer than any other term in the loan period. This requirement applies to Stafford and PLUS loan funds delivered by the school on or after July 1, 2001.

*Disability discharge (total and permanent):* A borrower who has had a prior loan discharged due to total and permanent disability on or after July 1, 2001, but before July 1, 2002, must reaffirm the discharged loan if the borrower *applies* for a loan within 3 years from the date the borrower became totally and permanently disabled, as certified by a physician. In this case, the borrower must reaffirm the previously discharged loan before receiving any new Stafford or PLUS loan. This provision is effective for Stafford and PLUS loan eligibility determinations made on or after July 1, 2001.

A borrower who has had a prior loan discharged due to total and permanent disability must meet the following requirements to be eligible to receive a new Stafford or PLUS loan:

- Obtain a physician's statement certifying that the borrower may now engage in "substantial gainful activity."
- Sign a statement acknowledging that any new loan the borrower receives may not be discharged due to the same or any disability existing at the time the new loan is made, unless the disabling condition substantially deteriorates to the extent that the definition of total and permanent disability is met.
- Reaffirm any loan that had been discharged due to total and permanent disability on or after July 1, 2001, but before July 1, 2002, if the borrower receives a new loan within three years of the date the borrower became totally and permanently disabled, as certified by a physician. (A borrower who has had a prior loan discharged due to total and permanent disability before July 1, 2001, is *not* required to reaffirm the discharged obligation.)

This change is effective for Stafford and PLUS loan eligibility determinations made on or after July 1, 2001.

A new definition of a total and permanent disability for the purpose of obtaining a loan discharge provides that the certifying physician (i.e., a doctor of medicine or osteopathy, legally authorized to practice in a state) is not required to consider the borrower's ability to attend school as a condition of his or her eligibility for discharge. In addition, the physician is no longer required to consider the date the borrower became unable to attend school when providing the begin date of the borrower's total and permanent disability. This change is effective for total and permanent disability claims filed by the lender on or after July 1, 2001.

*Due diligence:* Lenders must notify the guarantor of any changes in delinquency status on a loan that result in a change to the payment due date, even if the delinquency is not reduced below the point at which the guarantor requires the lender to cancel a request for default aversion assistance. This change is effective for default aversion assistance requests filed by the lender on or after July 1, 2001, or the date the guarantor implements the Common Claim Initiative (CCI), whichever is later, unless implemented earlier by the guarantor.

*Eligibility – school:* To participate in any Title IV program, a school must establish its eligibility under the Higher Education Act of 1965, as amended, in accordance with the procedures specified by the Department. A school must submit an application to the Department to request a determination that it qualifies as an eligible institution and must include a request for certification to participate in the FFELP. To be certified for participation, a school must meet the qualifications of an eligible institution; the school must meet administrative capability and financial responsibility requirements; and if the school is participating for the first time in Title IV programs, and it has not requested and been granted a training waiver, designated school administrators defined by the Department must complete Title IV training within 12 months after the school executes the Program Participation Agreement. A school that is currently participating in some Title IV programs is not required to have certification training if it is only requesting approval to participate in additional Title IV programs. This clarification is effective for schools establishing eligibility on or after July 1, 2001.

A school that adds a licensed and accredited location that offers at least 50% of an educational program must report to the Department before delivering Title IV funds to eligible students attending the added location. In addition, after reporting, a school must have approval from the Department before it can deliver Title IV funds to eligible students attending the added location if it meets any of the following criteria:

- The school is provisionally certified.
- The school is on the reimbursement or cash monitoring system of payment.
- The school has acquired the assets of another school that provided educational programs at that location during the preceding year, and the other school participated in Title IV programs during that year.
- The school would be subject to a loss of eligibility due to its cohort default rate if it adds the location.
- The school has been notified by the Department that it must apply for approval of an additional location.

This change is effective for school locations added on or after July 1, 2001.

A school must apply to the Department and wait for approval to convert an eligible location to a branch campus. The school may continue to deliver Title IV funds to students attending that location. This change is applicable to schools that convert an eligible location to a branch campus on or after July 1, 2001.

A school must apply to the Department to increase the level of program offering (e.g., offering graduate degree programs when it previously offered only baccalaureate degree programs) and obtain approval before delivering Title IV funds to students enrolled in the new programs at the increased level. This change is effective for schools increasing the level of program offering on or after July 1, 2001.

A school may enter into a single written agreement with a study-abroad organization representing one or more foreign schools rather than a separate agreement with each individual foreign school that its students attend. This clarification is effective for written agreements consummated by schools on or after July 1, 2001, or implemented at the school's discretion on or after November 1, 2000.

Private nonprofit, private for-profit, and public schools that experience a change of ownership resulting in a change of control and schools that change status as nonprofit, for-profit, or public schools may continue eligibility by submitting an application to the Department. In response to a school's application, the Department may approve a provisional Program Participation Agreement (PPA) (previously referred to as a TPPPA). To obtain an extension of the provisional PPA prior to its expiration, the school must provide to the Department a “same day” balance sheet, required documentation of accrediting agency and state licensing approval, and a default management plan (unless the school is exempt from providing the plan). This change is applicable to private nonprofit, private for-profit, or public schools that experience a change of ownership resulting in a change of control or to schools that change status as nonprofit, for-profit, or public schools on or after July 1, 2001, unless implemented earlier.

A change in governance for a public school is not considered to be a change of ownership that results in a change in control if the school remains a public school after the change and the new governing authority is in the same state and has acknowledged the school's continued responsibilities under its Program Participation Agreement (PPA). A public school must, within 10 days of a change in governance, report the change to the Department and each applicable guarantor. This change is applicable to a school's reporting of changes for the purpose of maintaining eligibility on or after July 1, 2001.

School reporting requirements for the purpose of maintaining eligibility on or after July 1, 2001, include the reporting of decreases in levels of program offering and changes in the governance of a public school. Periods of time counted toward a “week of instruction” may include only preparation for final examination occurring after the last scheduled day of classes for a payment period. In addition, homework has been added to the list of activities that are not considered as instructional time. This change applies to a “week of instruction” as determined by the school for purposes of establishing or maintaining school program eligibility on or after July 1, 2001.

*False certification loan discharge:* The guarantor or Department may initiate a false certification discharge process if either possesses knowledge of false certification eligibility. If the guarantor or Department initiates the discharge process, the borrower may not be required to complete, and the lender may not be required to submit, a discharge request. This clarification is effective for discharge eligibility determined by the guarantor or Department on or after July 1, 2001, unless implemented earlier by the guarantor.

*Financial aid transcript (FAT):* Schools are no longer required to respond to a paper financial aid transcript request for a prior-year or current-year transfer student, unless it is a request to report assistance that a student has received through the Department of Health and Human Services. The elimination of paper financial aid transcripts is effective for requests received by the school on or after July 1, 2001.

*Forbearance:* A lender must grant a mandatory forbearance annually, at the borrower's request, while the borrower maintains eligibility for loan forgiveness under the Teacher Loan Forgiveness Program. The lender must also grant a forbearance for a period not to exceed 60 days while the lender is awaiting a completed Teacher Loan Forgiveness Application from the borrower. In addition, after receiving the application, the lender must grant a forbearance to cover the period needed by the guarantor to determine the borrower's eligibility for forgiveness. The forbearance begins on the date the lender receives the completed Teacher Loan Forgiveness Application and ends on the date the lender receives a denial of the request or the loan forgiveness amount from the guarantor. This change applies to forbearance requests granted by the lender on or after July 1, 2001, unless implemented earlier by the guarantor.

*Interest rates:* Beginning July 1, 2001, the variable interest rate for PLUS and SLS loans first disbursed during the period beginning July 1, 1987, and ending June 30, 1998, will be adjusted annually on July 1, and calculated by adding 3.1% or 3.25%, as applicable, to the weekly average one-year constant maturity Treasury yield, as published by the Board of Governors of the Federal Reserve System, for the last calendar week ending on or before June 26 of that year.

*Late disbursement/post-withdrawal disbursement:* A lender, when knowingly making a late disbursement on or after July 1, 2001, is no longer required to provide a notice to the school indicating that the loan proceeds should be delivered as a late disbursement.

*Loan guarantee:* Guarantors will pay ineligible borrower claims at 98% rather than 100%. This change is effective for ineligible borrower claims received by the guarantor on or after July 1, 2001, unless implemented earlier by the guarantor.

*Notification to borrower and student:* A school that credits a student's school account with Stafford or PLUS loan proceeds and sends the student or parent borrower the required notification electronically, must also confirm receipt of the electronic notification by the student or parent borrower and maintain documentation of that confirmation. This requirement applies to electronic notifications sent by the school on or after July 1, 2001.

*PLUS credit check:* In those cases in which a lender approves a PLUS loan for an applicant with an adverse credit history, the lender must retain a record supporting its decision based on extenuating circumstances. This requirement is effective for PLUS loans made on or after July 1, 2001, unless implemented earlier by the lender.

*Teacher Loan Forgiveness:* The new Teacher Loan Forgiveness Program requirements replace prior references and requirements related to the Loan Forgiveness Program for Teachers. Under the Teacher Loan Forgiveness Program, the Department repays all or a portion of a borrower's Stafford loan obligations, and Consolidation loan obligations to the extent that a Consolidation loan repaid a borrower's Stafford loans. The Department will repay, on behalf of a qualified borrower, no more than a combined total of $5,000 under both the FFELP and FDLP for outstanding principal and accrued interest on his or her qualifying Stafford loans, or the outstanding portion of a Consolidation loan used to repay qualifying Stafford loans, at the end of the 5th complete year of teaching. The loan for which forgiveness is sought must have been made before the end of the 5th year of qualifying teaching service. These provisions are effective for Teacher Loan Forgiveness Applications received by the lender on or after July 1, 2001, from a “new borrower” on or after October 1, 1998, who has been employed as a full-time teacher for 5 consecutive, complete years, as long as one of the years is after the 1997-1998 academic year— unless implemented earlier by the guarantor.

*Unpaid refund discharge:* If the guarantor and the borrower are unable to resolve an unpaid refund with an open school and the borrower has ceased to attend the school that owes the refund, the guarantor must approve the request within 120 days of the date the guarantor receives the completed unpaid refund discharge request, rather than 120 days from the date the borrower submits the request. This provision is effective for completed unpaid refund discharge requests received by the guarantor on or after July 1, 2001.

To be considered for an unpaid refund discharge, a borrower must declare that he or she, or the student in the case of a PLUS loan, received at least part of the proceeds of a FFELP loan on or after January 1, 1986. This provision is effective for completed unpaid refund discharge requests received by the guarantor on or after July 1, 2001.

### August 21, 2001

*Forbearance:* After a lender receives reliable but unofficial notification of a borrower's or dependent student's death, the lender must grant a mandatory administrative forbearance, for a period not to exceed 60 days, until the lender receives documentation of the death. This forbearance does not require a written request nor is the lender required to notify the borrower or endorser that a mandatory administrative forbearance was granted. The lender may grant an administrative forbearance for up to an additional 60 days if more time is needed to obtain this documentation. This additional forbearance does not require a written request, but the lender is required to notify the borrower or endorser that the additional period of administrative forbearance was granted. This provision is effective for reliable but unofficial notifications of a borrower's or, in the case of a PLUS loan, the borrower's or dependent student's death received by the lender on or after August 21, 2001.

## 2002

### January 1, 2002

*Bankruptcy:* If a bankruptcy action does not require the filing of a claim with the guarantor, the lender may—but is not required to—make subsequent disbursements of a loan. If the lender chooses not to make the remaining disbursements, the lender must notify the school, the borrower, and the guarantor of the disbursement cancellations. The lender also must notify the borrower that he or she may reapply for the loan funds in the same amount that was not disbursed. If the lender cancels any of the undisbursed or undelivered funds because of a bankruptcy action, the lender must agree to make a new loan for the amount that was canceled or any remaining loan eligibility as determined by the school. This clarification is effective for bankruptcy notices received by the lender on or after January 1, 2002, unless implemented earlier by the guarantor.

*Common forms:* The common Consolidation loan forms, issued by the Department in October 2000 in GEN-00-16, are required for all Consolidation loan applications signed by borrowers on or after January 1, 2002.

The Common Claim Initiative (CCI) establishes new, standard formats for lenders to use when requesting default aversion assistance and claim reimbursement. To standardize the claim filing process for lenders, the *Common Manual* guarantors have adopted a common Claim Form and related common policies. The Claim Form is designed to permit a lender to file a claim reimbursement request in a single format with any guarantor, and to improve operational efficiencies for lenders and servicers that have relationships with more than one guarantor.

A guarantor establishes the date on which it is ready to trade CCI electronic records with its trading partners (i.e., lenders and servicers). This date is referred to as the "G" date. All guarantor "G" dates will be established based on the final publication of the CCI electronic formats, with one "G" date for default aversion assistance and another "G" date for claims. The final "G" date for implementing the Default Aversion Assistance Request Form and its related policies was January 5, 2001.

Regarding the Claim Form and its related policies, the earliest "G" date that a guarantor may establish is six months after the final release of the CCI claim documentation. All CCI trading partners (i.e., lenders, servicers, and guarantors) will be provided a window of nine months from each guarantor's "G" date to start reporting data using the CCI electronic format. Therefore, the claim effective date will be the guarantor's "G" date plus nine months.

| | |
|---|---|
| July 1, 2001 | Claim documentation released |
| January 1, 2002 | Earliest guarantor "G" date |
| September 30, 2002 | Earliest required implementation date |
| September 30, 2002 | Latest guarantor "G" date |
| June 30, 2003 | Latest required implementation date |

*Repayment terms:* "New borrowers" on or after October 7, 1998, may qualify for an extended repayment schedule if they have multiple lenders and more than $30,000 in outstanding principal and interest in FFELP loans. A lender must retain a record of the basis for determining a borrower's eligibility for an extended repayment schedule, if the total loan amount it holds is not more than $30,000. This change is effective for extended repayment schedules disclosed on or after January 1, 2002.

### January 2, 2002

*NSLDS:* The Department of Education updated the National Student Loan Data System (NSLDS) Enrollment Reporting process effective January 2, 2002, to enhance both the batch process of enrollment records and the NSLDS/FAP Web site for financial aid professionals. The Department also renamed the former *SSCR Users Guide* the *NSLDS Enrollment Reporting Guide*.

### July 1, 2002

The Department issues Dear Colleague Letter GEN-02-03, which provides clarification regarding the implementation of the total and permanent disability discharge regulations that are effective July 1, 2002.

*Bankruptcy:* A bankruptcy claim and proof of claim, if applicable, must be filed with all required documents within 30 days after the lender's receipt of the Notice of the First Meeting of Creditors or other confirmation issued by the debtor's attorney or the bankruptcy court, or within 30 days after the date the guarantor provides the lender with bankruptcy information and instructs the lender to file a bankruptcy claim, whichever is earlier. This provision is effective for bankruptcy notifications received by the lender on or after July 1, 2002, unless implemented earlier by the guarantor.

If the guarantor purchases a default claim and later receives documentation that the date of the bankruptcy petition preceded the date of the default (the 270th day of delinquency), the lender will be required to repurchase the loan unless the loan is determined by the court to be dischargeable in the bankruptcy action. The lender is not required to repurchase a claim for a loan that is filed as a default claim and the date of default precedes the petition date. This policy is effective for bankruptcy petitions received by the guarantor on or after July 1, 2002, unless implemented earlier by the guarantor.

If a borrower's bankruptcy action will not result in the lender filing a claim with the guarantor and the lender chooses to make subsequent disbursements of the loan, then the lender must not ask the school to return any loan funds not yet delivered by the school to the borrower. This provision is effective for bankruptcy notices received by the lender on or after July 1, 2002, unless implemented earlier by the guarantor.

*Common Forms:* The Common Claim Initiative (CCI) establishes new, standard formats for lenders to use when requesting default aversion assistance and claim reimbursement. To standardize the supplemental claim filing process for lenders, the *Common Manual* guarantors have adopted a common Supplemental Claim Form and the following related common policies:

- The lender may not file a supplemental claim for less than $50. This amount may include principal, interest, or both.

- The lender must submit the common Supplemental Claim Form to request claim payment increases.

This policy is effective for supplemental claim requests filed by the lender on or after July 1, 2002, unless implemented earlier by the guarantor.

The National Council of Higher Education Loan Programs (NCHELP) Program Operations Committee's Default Aversion and Claims Standardization (DACS) Workgroup has revised the Supplemental Claim Form to coordinate the language with the terminology of the other CCI forms. For lenders filing supplemental claims under the CCI, the chart of data elements has been revised to coordinate with the revisions made to the Supplemental Claim Form. In addition, the requirement that a lender provide the date the lender or servicer prepared the form has been deleted. The revisions are effective for supplemental claims filed under the CCI by the lender on or after July 1, 2002.

*Disability discharge (total and permanent):* Effective for total and permanent disability discharge determinations made by the lender on or after July 1, 2002:

- **General Discharge Requirements for Total and Permanent Disability Claims**

  A borrower's obligation to repay a loan may be discharged if a doctor of medicine or osteopathy, legally authorized to practice in a state, certifies that the borrower is totally and permanently disabled, but does not assume the loan is canceled in this case. In addition, the criteria for establishing the borrower's eligibility for discharge provide that the borrower is not considered totally and permanently disabled on the basis of a condition that existed at the time the loan was made, rather than before he or she applied for the loan.

- **Borrower Notification Requirements after Total and Permanent Disability Claim Filing**

  If the guarantor pays the claim, the lender must notify the borrower that the loan will be assigned to the Department for determination of eligibility for a total and permanent disability discharge. If the guarantor determines that the borrower is not eligible, the claim will be returned to the lender with an explanation of the reason for the denial. The lender must notify the borrower that the application for a disability discharge has been denied. The notification to the borrower must include the basis for the denial and inform the borrower that the lender will resume collection on the loan.

- **Borrower Payments and the Conditional Disability Discharge**

  At the time the claim is filed, the lender must provide the guarantor with a record of any payments received after the date, certified by the physician, that the borrower became unable to work and earn money (i.e., the date of total and permanent disability). Under the new regulatory requirements, the borrower will not be eligible for a refund of these payments until after the 3-year "conditional" discharge period. In addition, the Department of Education, rather than the lender or guarantor, will make this refund.

Completed total and permanent disability discharge requests received by the lender on or after July 1, 2002, and subsequently paid as a claim by the guarantor, are permanently assigned to the Department. If the Department determines that the certification and information provided by the borrower do not support the conclusion that the borrower meets the criteria for a total and permanent disability discharge, the Department notifies the borrower that the application for a disability discharge has been denied and that the loan is due and payable under the terms of the promissory note.

If the Department makes an initial determination that the borrower is totally and permanently disabled, the Department notifies the borrower that the loan is conditionally discharged and that the conditional discharge period will last for up to 3 years after the date the borrower became totally and permanently disabled, as certified by the physician. The Department's notification specifies that all or part of the 3-year period may predate the Department's initial determination, and identifies the following conditions that apply during the 3-year conditional discharge period:

- The borrower is not required to make any payments on the loan.

- The borrower is not considered delinquent or in default on the loan, unless the borrower was delinquent or in default at the time the conditional discharge was granted.

- The borrower must promptly notify the Department of any changes in address or phone number.

- The borrower must promptly notify the Department if his or her annual earnings from employment exceed 100 percent of the poverty line for a family of two.

- The borrower must provide the Department, upon request, with additional documentation or information related to the borrower's eligibility for a total and permanent disability discharge.

- The borrower must not receive a new loan under the Perkins, FFEL, or Direct Loan Programs, except for a FFELP or Direct Consolidation loan that does not include any loans that are in a conditional discharge status.

The Department also notifies the borrower that, if at any time during the 3-year conditional discharge period, the borrower does not continue to meet the eligibility requirements for a total and permanent disability discharge, the Department will resume collection activity on the loan but will not require the borrower to pay any interest that accrued on the loan from the date of the initial determination of total and permanent disability through the end of the conditional discharge period.

*Due diligence:* If a lender determines that a borrower does not meet the definition of totally and permanently disabled, or if a lender does not receive the physician's certification of total and permanent disability within 60 days of the receipt of the physician's written request for additional time, the lender must resume collection activity and treat the loan as though forbearance had been granted during this period. This policy is effective for total and permanent disability discharge requests received by the lender on or after July 1, 2002.

*Forbearance:* Guarantors will continue to permit a lender to grant an administrative forbearance if the lender receives reliable information indicating that a borrower has become totally and permanently disabled. The lender may grant the borrower an administrative forbearance, not to exceed 60 days, until the lender receives certification of the borrower's total and permanent disability. In addition, if the lender does not grant the borrower an administrative forbearance, the lender must continue collection activity until it receives the certification—or until it receives a physician's "written request," rather than a specific "letter," that additional time is needed to determine whether the borrower is totally and permanently disabled. This policy is effective for total and permanent disability discharge requests received by the lender on or after July 1, 2002.

*Eligibility – borrower and student:* A borrower who has received a conditional discharge of a prior loan due to an initial determination that the borrower is totally and permanently disabled must do all of the following to be eligible to receive a new Stafford or PLUS loan:

- Obtain a physician's statement certifying that the borrower may now engage in "substantial gainful activity." For these purposes, "substantial gainful activity" is defined as the ability to work and earn money.

- Sign a statement acknowledging that any loan that has been conditionally discharged may not be discharged due to the same or any disability existing at the time the borrower applied for a total and permanent disability discharge or when the new loan is made, unless the disabling condition substantially deteriorates to the extent that the definition of total and permanent disability is met.

- Sign a statement acknowledging that collection activity will resume on any loans in a conditional discharge period.

The borrower's receipt of a new Stafford or PLUS loan terminates the borrower's conditional discharge and the Department reinstates collection activities on any loan on which collection activity had been previously suspended based on an initial determination of total and permanent disability. This policy is effective for Stafford and PLUS loan eligibility determinations made on or after July 1, 2002.

**October 1, 2002**

*Disbursement rules:* The references to the statutory exceptions authorized in HEA 428G(a)(3) and (b)(1) are eliminated. These exceptions had waived, for schools with low cohort default rates, the multiple disbursement requirement for a single-term loan and the 30-day delayed delivery requirement for a first-year undergraduate student who is a first-time borrower. The statutory authority for these exceptions expired on September 30, 2002. This change is effective for loans certified on or after October 1, 2002.

**November 1, 2002**

*Repayment start:* When establishing the next payment due date on a PLUS or SLS loan following a period of forbearance, deferment, or post-deferment grace, the lender may provide the borrower a due date that is no later than 60 days after the end of the forbearance, deferment, or post-deferment grace period. The due date may be later than 60 days if the borrower makes a prepayment during the period that advances the due date. This policy is effective for next payment due dates for PLUS and SLS loans established by the lender on or after November 1, 2002.

When establishing the next payment due date on a Stafford loan following a period of forbearance, deferment, or post-deferment grace, the lender must provide the borrower a due date that is no later than 60 days after the end of the forbearance, deferment, or post-deferment grace period. Lenders also are required to establish a first payment due date no later than 60 days after the repayment start date. This policy is effective for first payment due dates and next payment due dates established by the lender on or after November 1, 2002.

Due dates are also revised following a lender's reconversion of loans when certain claim-type activity is involved. Effective for next payment due dates established by the lender on or after November 1, 2002:

- When notified that a bankruptcy action has concluded on a loan that was not eligible for bankruptcy claim payment, a lender must establish a next payment due date that is within 60 days of the date the lender receives that notification.
- When the lender receives a full payment or a signed repayment agreement on a loan that has lost its guarantee, the lender must establish a next payment due date that is within 60 days of the date that payment or signed repayment agreement is received.

# H.2
# History of Excess Interest Rebates and Variable Interest Rate Conversions

In 1986, Congress authorized a new interest rate for Stafford loan borrowers, creating a loan that accrues interest at a maximum of 8% for the in-school and grace periods, and for the first 48 months of repayment. On the first day of the 49th month of repayment, the loan converts to a maximum interest rate of 10% and continues the 10% accrual until the loan is paid in full.

Congress anticipated that there would be periods over the long life of the Stafford loans where the 10% rate might exceed substantially the market interest rates. With a goal of protecting student borrowers from paying excessively high interest rates, Congress created a process that would require lenders to "rebate" to the borrower any "excess" interest earnings on the loan after 48 months of repayment, if that interest exceeds the T-bill rate plus 3.25%.

Following is a brief chronology of excess interest rebates (also called windfall profit rebates) and the process of variable interest rate conversion into which it evolved.

## 1986

**October 17, 1986**

The Higher Education Amendments of 1986 create the 8%/10% interest rate for loans and a requirement to refund interest to the borrower if the applicable interest rate on such loans exceeds the T-bill rate plus 3.25%.

Rebates are:

- Applicable only when the interest rate on the loan is 10%. Rebates are to be calculated and applied even if the lender is accruing interest at an actual interest rate of less than 10%.
- Paid only to the borrower even if the Department paid interest subsidy for the borrower during the period.
- Based on the quarter-ending principal balance of the loan.
- Applied to the loan only at year-end if the loan has a principal balance outstanding at year-end.
- Not applicable to loans on which the borrower is more than 30 days delinquent on December 31 of the year for which they are calculated.

## 1988

### July 1, 1988

"New borrowers" receiving their first Stafford loans for periods of enrollment beginning on or after July 1, 1988, sign promissory notes for the 8%/10% rate and are subject to that rate for all subsequent Stafford loans received.

## 1992

### July 23, 1992

The Higher Education Amendments of 1992 expanded rebate provisions, applying rebates to all Stafford loans first disbursed at "fixed" rates on or after July 23, 1992.

Rebates are now:

- Applicable to all Stafford loans first disbursed on or after July 23, 1992, at fixed interest rates of 7%, 8%, 9%, and to the first loan made at 8%/10% to a new borrower on or after July 23, 1992. Rebates are now applicable based on the loan's maximum interest rate, even if the lender was accruing interest at a lesser rate.
- Made to the Department if subsidized interest is paid on loans made under the new provisions during a period in which rebates are due.
- Calculated quarterly and applied annually, based on the loan's balance on December 31.
- Applicable when the T-bill rate plus 3.1% is less than the applicable interest rate.

## 1993

### December 20, 1993

The Technical Amendments of 1993 provided for the conversion of loans subject to excess interest rebates to a variable interest rate.

The new legislation requires that:

- Loans previously subject to rebate provisions be converted to an annual variable interest rate.
- Variable-rate loans may be capped at the applicable interest rate for the loan.
- Loans be converted to the annual variable interest rate no later than January 1, 1995.
- Rebates processed for periods before the conversion to variable rate be processed based on the quarterly average principal balance of the loan.
- Lenders that have not yet provided rebates retroactively convert loans subject to rebate provisions to a variable interest rate rather than calculate and apply rebates.
- If the loan is more than 30 days delinquent as of December 31, the rebate on the loan, if applicable, is to be made to the Department.

#### Processing Options

Based on the preceding legislative provisions, lenders had three options for providing an interest break to their Stafford loan borrowers:

1. Lenders may process rebates through year-end December 1992 or 1993 then calculate the variable rate conversion and apply it by January 1995.
2. Lenders may retroactively reprocess the loans as variable interest rates without rebates by using the 91-day T-bill rate for the retroactive adjustments and applying the "excess interest" calculated as a credit. The conversion must be completed by January 1995.
3. Lenders that have processed rebates may reverse those rebates and retroactively convert the loans to the variable rates.

#### Notes and Cautions

Several provisions are applicable to the rebate/variable interest rate conversion process:

- A lender that has already applied rebates for year-end 1992 need not provide rebates to the Department if the borrower's loan was more than 30 days delinquent on December 31, 1992. However, even if the lender had calculated and provided rebates for year-end 1993, if the borrower's loan was more than 30 days delinquent on December 31, 1993, the lender must provide rebates to the Department on those loans for which the rebate was not made to the borrower.

- After January 1, 1995, for loans accruing at 8%/10% that are eligible for conversion to a variable interest rate conversion only when the loan reaches the 10% accrual, the lender must convert the loan to a variable interest rate on the first day of the 49th month of repayment. For loans subject to rebates and interest-rate conversion only at 10%, the variable rate is calculated based on the T-bill rate plus 3.25%.

- Variable interest rates change annually and are effective from July 1 of each year to the following June 30.

- For fixed-rate loans that have already been converted to a variable rate, borrowers must have been notified that the interest rate on the loan changed to a variable rate. The notice was to have been provided no less than 30 days before the rate change occurred. The borrower could not refuse the interest rate conversion.

- For loans subject to variable rates only when the applicable interest rate changes to 10%, the lender must provide notice to the borrower no less than 30 days before the date on which the loan will convert to the variable interest rate.

- Adjustments from the rebate or variable interest rate conversion that result in a refund of subsidized interest to the Department must be included in the ED Form 799 no later than the reports filed for December 31, 1994, and March 31, 1995, respectively.

- Loans on which a claim has been filed with the guarantor for claim payment need not be converted to variable interest rates.

- Lenders are not permitted to adjust special allowance billings for loans for which the applicable interest rate is retroactively revised.

- Lenders for which an accurate historical record of the loan's balances is not available may calculate and provide rebates and conversion information based on the best data available.

- For loans that have been sold or bought during the period for which rebates and/or interest rate conversions are applicable, each holder of the loan is responsible for making the adjustments for periods during which they held the loan.

- When completing a Consolidation loan verification certificate for a loan to which the interest rate conversion is applicable, the variable rate should be specified.

- If a loan was filed as a claim with the guarantor, and is subsequently recalled or repurchased, the lender must convert the loan to the variable rate. If the lender is repurchasing the loan because the loan should not have been filed as a claim or because the loan is a nondischargeable bankruptcy, the interest rate must be adjusted retroactively to the point at which the loan first became eligible for the rebate or interest rate conversion.

If the loan is being recalled or repurchased voluntarily by the lender, the lender need only apply adjustments from the day on which the loan is repurchased.

- Loans that are rehabilitated must have the interest rate reset as of the date the rehabilitated loan is purchased by the lender.

- Loans on which the guarantee is lost but that are subsequently cured must have the interest rate reset as of the date of the cure. Lenders have the option of retroactively making adjustments for periods before the cure.

## Summary of Variable-Rate Conversion Provisions — Figure H-1

| Loans Subject to Conversion | Annual Variable Interest Rates | | Quarterly Variable Interest Rates | |
|---|---|---|---|---|
| *Higher Education Amendments of 1986:* | 7/1/93 through 6/30/94: | **6.37%** | Quarter ending 9/30/92: | **7.03%** |
| | 7/1/94 through 6/30/95: | **7.58%** | Quarter ending 12/31/92: | **6.39%** |
| 8%/10% Stafford loans first disbursed before July 23, 1992, when such loans are accruing at the 10% interest rate. | 7/1/95 through 6/30/96: | **9.07%** | Quarter ending 3/31/93: | **6.42%** |
| | 7/1/96 through 6/30/97: | **8.41%** | Quarter ending 6/30/93: | **6.30%** |
| | 7/1/97 through 6/30/98: | **8.41%** | Quarter ending 9/30/93: | **6.30%** |
| | 7/1/98 through 6/30/99: | **8.41%** | Quarter ending 12/31/93: | **6.33%** |
| 8%/10% Stafford loans first disbursed on or after July 23, 1992, but before October 1, 1992, when such loans are accruing at the 10% interest rate, to borrowers who had no outstanding FFELP loans on the date the promissory note was signed. | 7/1/99 through 6/30/00: | **7.87%** | Quarter ending 3/31/94: | **6.39%** |
| | 7/1/00 through 6/30/01: | **9.14%** | Quarter ending 6/30/94: | **6.59%** |
| | 7/1/01 through 6/30/02: | **6.94%** | Quarter ending 9/30/94: | **7.40%** |
| | 7/1/02 through 6/30/03: | **5.01%** | Quarter ending 12/30/94: | **7.88%** |
| | | | Quarter ending 3/31/95: | **8.71%** |
| *Higher Education Amendments of 1992:* | 7/1/93 through 6/30/94: | **6.22%** | Quarter ending 9/30/92: | **6.88%** |
| | 7/1/94 through 6/30/95: | **7.43%**[1] | Quarter ending 12/31/92: | **6.24%** |
| Stafford loans first disbursed at a fixed rate (7%, 8%, 9%, and 8%/10% loans when accruing at 8% and 10%) on or after July 23, 1992, to borrowers who had outstanding FFELP loans on the date the promissory note was signed. | 7/1/95 through 6/30/96: | **8.92%**[2] | Quarter ending 3/31/93: | **6.27%** |
| | 7/1/96 through 6/30/97: | **8.26%**[2] | Quarter ending 6/30/93: | **6.15%** |
| | 7/1/97 through 6/30/98: | **8.26%**[2] | Quarter ending 9/30/93: | **6.15%** |
| | 7/1/98 through 6/30/99: | **8.26%**[2] | Quarter ending 12/31/93: | **6.18%** |
| | 7/1/99 through 6/30/00: | **7.72%**[1] | Quarter ending 3/31/94: | **6.24%** |
| | 7/1/00 through 6/30/01: | **8.99%**[2] | Quarter ending 6/30/94: | **6.44%** |
| | 7/1/01 through 6/30/02: | **6.79%** | Quarter ending 9/30/94: | **7.25%**[1] |
| | 7/1/02 through 6/30/03: | **4.86%** | Quarter ending 12/30/94: | **7.73%**[1] |
| | | | Quarter ending 3/31/95: | **8.56%**[2] |

1 Because the variable rate for Stafford loans in this category may not exceed the original interest rate, this variable interest rate does not apply to Stafford loans first disbursed at a fixed 7% interest rate, which are capped at 7%.

2 Because the variable rate for Stafford loans in this category may not exceed the original interest rate, this variable interest rate does not apply to Stafford loans first disbursed at a fixed 7% or 8% interest rate, which are capped at 7% and 8%, respectively.

# H.3
# History of Ability-to-Benefit Provisions

There have been numerous publications regarding ability-to-benefit (ATB) provisions over the past years: some providing clarification or definition, some revising previous guidance. Following is a compilation of ATB guidance to provide a historical reference regarding this evolving process.

## H.3.A
## Ability-to-Benefit Requirements

ATB requirements vary in federal law and regulation based on the period of enrollment for which the loan was issued.

### Periods of Enrollment Beginning January 1, 1986, to June 30, 1987

The school was required to develop and enforce consistent criteria to determine if regular students who did not have high school diplomas or GEDs and who were beyond the age of compulsory attendance had the ability to benefit from the school's training.

### Periods of Enrollment Beginning July 1, 1987, to June 30, 1991

The school was required to use one of the following criteria for determining the student's ability to benefit:

- The student received a GED prior to his or her completion of the program of study, or by the end of the first year of the program, whichever was earlier.
- The student was counseled before admission to the program and successfully completed the school's remedial program or developmental education program that did not exceed one academic year or the equivalent of one academic year.
- The student passed a nationally recognized, standardized, or industry-developed ATB test, subject to criteria developed by the school's accrediting agency.
- If the student failed the ATB test, he or she successfully completed the school's program of remedial or developmental education that did not exceed one year or the equivalent of one academic year.

The school could use more than one method as described above to determine a student's ability to benefit. However, if the school's accrediting agency provided no criteria for the ATB tests, or if the school was not affiliated with an accrediting association, the school could not administer, or have administered, a test as described under the third option noted above.

*GED-Specific Guidance*
In cases where the student was to receive his or her GED prior to completing the program of study or first year of that program, whichever was earlier, the school must have documented the student's completion of the GED and that no Title IV funds were used for studies toward the GED. In cases where the student did not complete the GED as required, the student lost his or her eligibility for Title IV aid. The school was not liable for the release of Title IV funds to the borrower, but the borrower remained responsible for the repayment of any loan funds received prior to his or her loss of eligibility. The school could not release Title IV funds to any student who completed the initial program of study or first year of a program for which it could not document the receipt of his or her GED.

*Remedial Work*
Students could be enrolled for remedial work, and courses for that remediation could be covered by Title IV funds, provided the remedial courses complied with the requirements of 34 CFR 668.20, including:

- The student must have been enrolled in an eligible program of study at an eligible institution.
- The course or courses must have been necessary for the student to complete a program of study leading to a degree or certificate.
- The courses must not have been a part of a program of instruction leading to a high school diploma or GED.
- The course work did exceed one academic year.
- The course work was not at such a low level of academic achievement that, at the end of the coursework, the student would remain at a level that was below the level needed to pursue successfully a degree or certificate program.

The school must have documented its decision to require the student to enroll in remedial work, prescribed a program of work to meet the student's need that did not exceed one academic year in length, and documented its determination that the student did successfully complete the program. If

the student failed to complete the course of study, or was not successful in that course of study, the school could not deliver additional Title IV funds to that student.

### Periods of Enrollment Beginning before July 1, 1991

The school is considered to have violated ATB provisions in either of the following cases:

- The school substantially failed to comply with its accrediting agency's standards for ATB testing.
- If no accrediting agency standards existed, the school substantially failed to comply with the test publisher's requirements for the use of the test.

### Periods of Enrollment Beginning July 1, 1991, to July 22, 1992

A student who was not a high school graduate or did not have a GED at the time of his or her enrollment must have passed an independently administered ATB test approved by the Department before the student's receipt of Title IV aid.

Students were not eligible for SLS loans if they had not received high school diplomas or GEDs. Schools were prohibited from certifying loan applications for SLS loans until students had obtained high school diplomas or GEDs.

ATB testing must have been completed before the student received any Title IV funds.

The Department issued lists of tests approved for ATB purposes in a series of publications, including the December 19, 1990, Federal Register and DCLs GEN-91-1, GEN-91-8, and GEN-91-20.

### Periods of Enrollment Beginning on or after July 23, 1992

A student who was not a high school graduate or did not have a GED at the time of enrollment must have met one of the following standards before receiving any Title IV aid:

- The student must have achieved a score specified by the Department on an independently administered ATB test that was approved by the Department.
- The student must have been considered to have had the ability to benefit from the school's training in accordance with a process prescribed by the state in which the school is located.

A student who was admitted initially under ATB provisions and who dropped out or withdrew from classes must have been reevaluated under the provisions in effect at the time of his or her reenrollment before the student may have been readmitted.

### Effective for Periods of Enrollment Beginning on or after July 1, 1996

*Final regulations for these provisions were published in December 1995, and were effective July 1, 1996.*

Schools may use tests and test scores approved before July 1, 1996, for a period of up to 60 days after the first approved test and test score is published in the *Federal Register*. Also, a student whose eligibility was determined under the old ATB rules need not be retested under the new provisions unless the student withdraws from the school and later reenrolls, in which case the student must meet the ATB rules in effect at the time of his or her reenrollment.

A student without a high school diploma, or one who did not have a GED at the time of enrollment, must have met one of the following standards before receiving any Title IV aid:

- Achieved a passing score on an independently administered test that has been approved by the Department. Note that the "passing score" will also be defined by the Department. If the student is required to pass an independently administered test, the student must have obtained a passing score not more than 12 months before the receipt of Title IV funds.
- Obtained a passing score on a Department-approved state test or assessment.
- Enrolled in an eligible institution (located in a State) that has been approved by the Department.

A school may be liable for Title IV funds delivered to a student admitted under ATB provisions if the school uses a test administrator who is not independent of the school at the time the test is administered, if the school interfered with the testing process in such a way as to compromise the test's integrity, or if the school cannot document that the student received a passing score.

# H.3.B
# Ability-to-Benefit Provisions

### Testing

Each student being admitted under ATB testing provisions must have been administered a test in compliance with the school's nationally recognized accrediting agency's criteria. For students admitted for periods of enrollment prior to July 1, 1991, the test could be administered by the school or any independent administrator. The school was required to maintain a record of that test and the student's score on the test. If the school administered the test itself, it was required to maintain a copy of the actual test as part of its recordkeeping requirements. If the school did not administer the test, a record of the results of that test satisfies the recordkeeping requirements

### Testing Violations

The following violations of testing rules are deemed sufficient to invalidate the ATB test results:

- A test that was required to be administered by an independent test administrator was not administered by an independent administrator.
- A school permitted a student who failed an ATB test to retake the test earlier than the minimum time frames for that test, or more frequently than permitted for that test.
- A school allowed more time for a student to complete the ATB test than was permitted.
- A school considered a student to have passed an ATB test even though the student did not achieve the minimum passing score permitted under statute, regulation, and the Department guidance in effect at that time.
- The school administered only a part of a multipart test, unless that was permissible under rules for that test.
- For ATB tests given for periods of enrollment beginning on or after July 1, 1991, the version of the test that was used by the school was not approved by the Department and was not administered in a manner such that it complied substantially with the test publisher's rules for its use.
- The school supplied answers to the test or permitted the students taking the test to discuss the answers among themselves, in violation of the test rules.

### Immaterial Violations

The Department of Education identified three violations of an accrediting agency's or test publisher's requirements that do not have a material effect on the student's test scores and that do not justify a loan discharge:

- Use of a photocopied ATB test.
- Use of an ATB test version that was obsolete by less than one year.
- Use of an ATB test that was approved by the Department but not approved by the school's accrediting agency.

### Foreign Language ATB Testing

If the ATB test was administered in a foreign language and subsequent courses were conducted in English, the student may qualify for an ATB discharge if the proper test was not administered. There are multiple tests available for non-English speaking students: tests for students enrolled in an English as a Second Language (ESL) course, tests where ESL courses are a component of the overall course of study, and tests for non-English speaking students who will enroll in regular academic or vocational courses. If the appropriate test was not administered to match with the student's intended course of study, the student may qualify for ATB discharge.

### Remedial Work

For a student enrolled in a course of study with a period of enrollment beginning in the period July 1, 1987, to July 1, 1991, the school is considered to have complied with the ATB provisions if the school ensured that the student enrolled in and successfully completed the school's program of remedial or developmental education within one academic year. A student also must have been counseled prior to admission and have failed an ATB test administered by the school.

### Documentation that the Student Was Unable to Get a Job

A key component of demonstrating ability to benefit is whether the student subsequently was unable to obtain a job in the field for which the course of study at the school provided training. To document this inability to obtain a job:

- If the student did *not* complete the program of study, the student must certify that he or she did not find employment in that occupation.
- If the student completed the program of study and claims that he or she was unable to find employment in that occupation, then the student must provide evidence that he or she made a reasonable attempt to obtain that employment. A reasonable attempt could be considered three separate attempts to obtain employment, documented by a list of the companies at which the student applied, the address of each potential employer, the date that the potential employer was contacted, the position for which the student applied, and the reason given by the potential employer for not hiring the student.

### Applicability of Provisions Regarding Student's Age, Criminal Record, etc.

The regulatory provisions regarding the student's eligibility for loan discharge due to his or her inability to obtain employment in an occupation due to his or her age, physical or mental condition, or criminal record are applicable to all students—regardless of the loan period start date or any requirement imposed on the school to determine the student's ability to benefit.

### Documentation of a Condition that Prohibited Employment

If the student claims that he or she was subject to a condition that prohibited employment in the position for which he or she trained, that condition and the state's prohibition regarding employment must be documented. A loan is not eligible for discharge if it can be proven that the student was asked if such a condition existed and the student did not disclose that condition.

### Group Discharges

In some cases discharge may be authorized for a group of borrowers who demonstrate that they belong to a particular cohort of students defined by the Department. All borrowers must request discharge and sign a sworn statement as prescribed in regulation. The Department will advise guarantors when a situation exists where it appears that an entire group of borrowers may be eligible for false certification discharge.

The Department requests that interested parties notify it of special situations where such an approach might be appropriate. Such a situation would be one in which a school appears to have committed "serious and pervasive violations" of regulations.

### Borrower Fraud

If a guarantor suspects, but cannot prove, that a borrower has made false statements on a discharge request, the incident should be reported to the Department of Education's Inspector General.

### Notification to the Department of Education

When a guarantor becomes aware that a school may have falsely certified a student's eligibility, that guarantor is required to notify the Department's Guarantor and Lender Review Branch in the regional office responsible for the state in which the school is located.

### Rules for Discharge

In order to have a loan discharged based on improper determination of the student's ability to benefit, the following criteria must be met:

- The loan must have been disbursed in whole or in part on or after January 1, 1986.
- The student must certify under penalty of perjury that the school failed to determine or improperly determined his or her ability to benefit from the school's training; and
- If the student withdrew from the school, the student must certify that he or she did not obtain employment in the field for which the school's course of study was intended; or,
- If the student completed the course of study, the student must certify that he or she made a reasonable attempt and was unable to obtain employment in the field for which the course of study was designed, or obtained employment in that field only after receiving additional training from another school; or
- The student must certify that he or she did not, at the time of enrollment, meet the legal requirements for employment in the student's state of residence in the

field for which the course of study was preparatory because of a mental or physical condition, age, or criminal record, or other reason accepted by the Secretary.

### Absence of Documentation/Evidence

A borrower's statement that he or she (or, in the case of a PLUS loan, the student) was "falsely certified" or "improperly tested" would not be considered sufficient evidence of the borrower's entitlement to discharge if it is not supported by some evidence that the student was admitted to a course of study to which he or she should not have been admitted as a result of improper administration of ATB provisions.

The guarantor is expected to obtain documentation and records from any available public or private agency which reviewed or had oversight responsibilities for the school. If the guarantor determines that evidence or documentation does not exist, it is the borrower's responsibility to substantiate the claim with substantive persuasive evidence.

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