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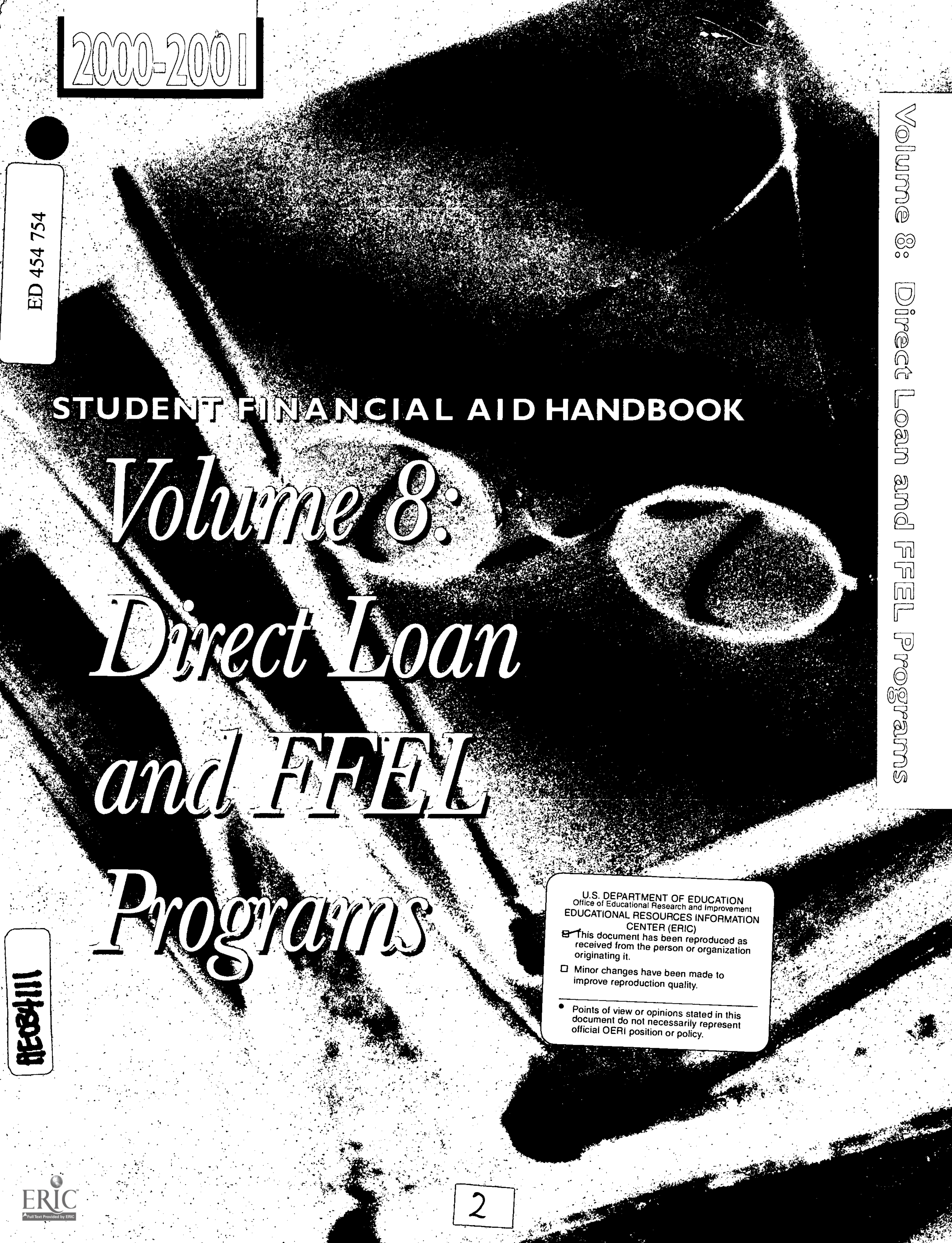
ABSTRACT

The "Student Financial Aid Handbook" explains the policies and procedures required for institutions of higher education to administer federally funded student financial assistance programs properly. This volume clarifies a school's responsibility with respect to Stafford and PLUS loans. These loans are offered through two delivery systems: the William D. Ford Federal Direct Loan (Direct Loan) Program and the Federal Family Education Loan (FFEL) Program. The borrower's eligibility is the same under either program, but the procedures are different because funds for Direct Loans are provided to the school by the federal government, while loan funds under FFEL are usually provided by a private lender and are guaranteed by a state agency. The chapters are: (1) "Institutional Eligibility and Administrative Requirements for DL/FFEL"; (2) "Borrower Eligibility for DL/FFEL"; (3) "Determining the Loan Period"; (4) "Starting the Loan Process: The MPN & the School's Role"; (5) "Loan Counseling"; (6) "Payment to the Borrower"; and (7) "Following Up: After the Loan Is Made." (SLD)



2000-2001

STUDENT FINANCIAL AID HANDBOOK

Volume 8: Direct Loan and FFEL Programs

Volume 8: Direct Loan and FFEL Programs

Student Financial Assistance Handbook

Volume 8 of 9
Volume 1: Student Eligibility
Volume 2: Institutional Eligibility
Volume 3: Pell Grant Program
Volume 4: Campus-based Common Provisions
Volume 5: Perkins Loans
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Developed by: SFA Schools Channel
Web Version: ifap.ed.gov
Questions about the SFA Handbook: csb@ed.gov or 1-800-4ED-SFAP
Additional Copies: 1-800 4 FED AID
Mailing List: General
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Introduction

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We've reorganized the information in this volume, with the intention of clarifying the school's responsibilities with respect to Stafford and PLUS loans. These loans are offered through two delivery systems: the William D. Ford Federal Direct Loan (Direct Loan) Program and the Federal Family Education Loan (FFEL) Program. While the borrower's eligibility is the same under either program, the procedures are different because funds for Direct Loans are provided directly to the school by the federal government, while loan funds under FFEL are usually provided by a private lender and are guaranteed by a state agency.

Federally guaranteed loans were first authorized 35 years ago, in Part B of Title IV of the Higher Education Act of 1965 (HEA). For many years, these were termed "Guaranteed Student Loans."

The Higher Education Amendments of 1992 (P.L. 102-325) renamed the guaranteed student loan programs the Federal Family Education Loan (FFEL) Program and the Student Loan Reform Act of 1993 authorized the Direct Loan Program. The Stafford and PLUS loans offered under these programs have the eligibility rules and the same annual and aggregate maximum amounts.

Schools administer the Direct Loan and FFEL Programs similarly. The main difference between these federal student loan programs is the source of funds for borrowers. Funds for Direct Loans come from the federal government; loans made through the FFEL program are provided by private lenders and are insured by guaranty agencies and reinsured by the federal government. The federal guaranty on the FFEL loans replaces the security (the collateral) usually required for long-term consumer loans.

Note that although all FFEL-related guaranty agency procedures and policies must accord with the federal requirements discussed in this chapter, **individual guaranty agencies may have additional procedures and policies**. To obtain specific information about a guaranty agency's policies and procedures, contact that agency.

The following types of loans are available through both the Direct Loan and FFEL programs:

- **Subsidized Stafford Loans** are awarded to students who demonstrate financial need. Because the U.S. Department of Education (the Department) subsidizes the interest, borrowers are not charged interest while they are enrolled in school at least half time and during grace and deferment periods.

- **Unsubsidized Stafford Loans** are awarded to students regardless of financial need. Borrowers are responsible for paying the interest that accrues during any period. Independent students and students whose parents cannot get a PLUS have higher unsubsidized loan limits comparable to the amounts a dependent student's parent(s) can borrow under PLUS.

- **PLUS Loans** allow parents to borrow on behalf of their dependent undergraduate children who are enrolled at least half time. As with unsubsidized Stafford loans, borrowers are responsible for the interest that accrues on PLUS Loans throughout the life of the loan.

- **Consolidation Loans** allow any borrower to combine one or more federal education loans into a new Direct Loan or FFEL to facilitate repayment.

In this reference, unless specifically referred to as a Direct Loan or an FFEL, the terms "Stafford Loans," "Consolidation Loans," and "PLUS Loans" refer to loans in both programs.

RECENT CHANGES

We have significantly reorganized the material in this volume of the SFA Handbook so you may wish to review the Table of Contents to familiarize yourself with the new organization. In addition, we have added examples and include additional information about operating procedures. Therefore, we encourage you to review this entire volume, even if you have read it before.

Please note that we have limited the focus of this Volume to the DL/FFEL program requirements that apply to participating schools. The chapters on borrower repayment issues (including deferment, cancellation, and consolidation) are being revised to make those materials more useful as counseling materials for schools, including information in formats accessible to the borrowers themselves. Schools will receive copies of these materials early in 2001.

The majority of the changes in this year's edition were based on the regulations published on October 29 and November 1, 1999. The most notable changes include:

- the requirement that schools use the proproportional method exclusively, when prorating loan limits for programs of study or remaining portions of programs of study less than an academic year in length (see Chapter 3, discussion beginning on page 8-22).

- further description of the Master Promissory Note, in particular the multi-year feature (see Chapter 4).

- exemptions from certain disbursement requirements for schools with low default rates (see Chapters 4).

- new language permitting schools to use electronic means to provide entrance and exit counseling to students (see Chapter 5).

- a requirement that schools, lenders, and guaranty agencies inform borrowers of the existence of the Department's Student Loan Ombudsman's office (see Chapter 5).

We hope that you find the changes to this volume helpful. If you have questions or suggestions on ways to expand or improve the presentation of Stafford and PLUS loan issues, please feel free to e:mail our writing staff at:

sfaschoolspubs@ed.gov

Institutional Eligibility and Administrative Requirements for DL/FFEL

CHAPTER 1

Before your institution can begin making loans in the Direct Loan (DL) Program or the Federal Family Educational Loan (FFEL) Program, it must meet the statutory definition of an "eligible school," and agree to perform certain administrative functions. Most of the statutory requirements for institutional eligibility have already been discussed in Volume 2 of the SFA Handbook. But there are a few exceptions and additional requirements for these loan programs, as discussed below.

ELIGIBILITY ISSUES FOR LOANS

In order to participate in the Direct Loan and/or FFEL programs, a school must meet the SFA program eligibility criteria discussed in the *SFA Handbook, Volume 2: Institutional Eligibility and Participation.* Only institutional eligibility issues specific to the Direct Loan and FFEL programs are discussed here.

A school must be accredited as an institution of higher education offering a graduate-level program to be eligible to certify Direct Loans or FFELs at the **graduate level**. (Students must be unconditionally accepted into a graduate or professional program.) A school that only offers **correspondence programs** is not eligible to participate in the Direct Loan and/or FFEL programs.

Note that a school can choose to participate in one or two of these loan programs — subsidized Stafford, unsubsidized Stafford, or PLUS — or all three. (See 34 CFR 685.300)

Foreign schools are eligible to participate in the Stafford and PLUS programs. In fact, these are the only two SFA programs that are available to foreign schools. However, an eligible school in the U.S. may pay a student with funds from any of the SFA programs for "study abroad" coursework, provided that the coursework is considered part of the student's eligible program at the domestic school.

Eligibility for in-school deferments only

If a school has never participated in the SFA programs but wants to be considered an eligible school so that its students can receive in-

Program Participation Requirements
Current requirements may have changed since your school's agreement was executed—see Volume 2 of this Handbook and 34 CFR 668.14

school deferments on previous loans, the school must demonstrate that it meets the Department's definition of an eligible school before the school may certify borrower deferment forms. To find out more about eligibility for deferment purposes, contact the Case Management Team for your state.

Applications to request designation as an eligible institution should be sent via the Electronic Application that can be found at **eligcert.ed.gov** Go to the "Initial Applicant" area of the Electronic Application to find information about the requirements to be an eligible institution. If you believe that your school meets the requirements, you may provide certain basic information by fax to the Case Management Team that serves your state. You will receive an OPEID number which will enable you to complete the full application to request designation as an eligible institution.

PROGRAM PARTICIPATION AGREEMENT REQUIREMENTS

Financial aid administrators should be familiar with the terms of the Program Participation Agreement (PPA) that the school has made with the Department. See *Volume 2: Institutional Eligibility and Participation* for complete information about all of the requirements. For your reference, we have listed some of the key provisions of the PPA that relate specifically to the loan programs. A school's PPA requires that

- an FFEL school must inform enrolled eligible borrowers of the availability of state grant assistance from the state in which the school is located, and provide a source of information for programs in the home state of the eligible borrower,

- a school must furnish information to the holders of Stafford or PLUS loans that were made at that school, as needed to carry out program requirements,

- a school must not certify or originate an FFEL or Direct Loan for an amount that exceeds the annual or aggregate loan limits,

- a school that is beginning participation in the Stafford or PLUS programs or that has changed ownership (resulting in a change in control) must use a default management plan approved by the Department for its first two years of participation unless the school has a default rate of 10% or less. (If the owner has owned any other schools, the default rates at those schools may not have exceeded 10% during the time he/she owned the school.)

The PPA (as well as program regulations) also prohibits schools from charging fees for processing applications or data required to determine eligibility for SFA Programs or for processing Direct Loan or FFEL Program deferment forms.

PROHIBITED SCHOOL AND LENDER ACTIVITY

The Higher Education Act prohibits a school from paying a commission, bonus, or other payment that is based directly or indirectly on success in securing enrollments or financial aid if the payee is engaged in any student recruiting or admission activities, or in making decisions regarding the awarding of student aid. This prohibition applies equally to payments to school staff, entities, or contractors. However, the law makes one exception: it does not prohibit a school from making incentive payments for recruiting foreign students in foreign countries who aren't eligible for Federal student aid. (The regulations further clarify that single token gifts to students or alumni for referrals are not considered prohibited payments, provided that the gift is worth no more than $25 and is not in the form of cash, check, or money order.)

Similarly, a school is prohibited from paying points, premiums, payments, or additional interest of any kind to any eligible lender or other party in order to induce a lender to make loans to students at the school or the parents of the students.

Lenders may not offer, directly or indirectly, points, premiums, payments, or other inducements, to any school or other party to secure applicants for FFEL loans (34 CFR 682.200, "Eligible lender"). Similar restrictions apply to guaranty agencies (see 34 CFR 682.401(e)). In addition, lenders and guaranty agencies are forbidden to mail unsolicited loan application forms to students enrolled in secondary or postsecondary schools, unless the prospective borrower has previously received loans guaranteed by that agency.

However, lenders, guaranty agencies, and other participants in the FFEL Program may assist schools in the same way that the Department assists schools under the Direct Loan Program. For example, a lender's representatives can participate in counseling sessions at a school, including initial counseling, provided that school staff are present, the sessions are controlled by the school, and the lender's counseling activities reinforce the student's right to choose a lender. A lender can also provide loan counseling for a school's students through the Web or other electronic media, and it can help a school develop, print, and distribute counseling materials.

Prohibition on commissions for enrollment recruiting
Discussed as one of the program participation requirements — see Section 487(a)(20) of the HEA and 34 CFR 668.14(b)(22)

Prohibited inducements
Schools 34 CFR 682.212
Lenders 34 CFR 682.200
Guarantors 34 CFR 682.401(e)

Record retention requirements
Discussed in the General Provisions
34 CFR 668.24
FFEL—34 CFR 682.610
DL—685.309(c)

RECORDKEEPING AND AUDITS

Recordkeeping

Record retention and examination requirements have been standardized for all student financial assistance (SFA) programs. In establishing or reviewing your office's procedures, you should consult *Volume 2: Institutional Eligibility and Participation* for complete information on these requirements. Following is an overview of recordkeeping requirements specific to the Stafford and PLUS loan programs:

Audit Guide Reference
The Audit Guides are posted on the Web in PDF format — go to the IFAP main page, select "Current SFA Publications" and go to the alphabetical listing for "Audit Guides." The specific Web address for the listing of publications is: ifap.ed.gov/csb_html/bookshlf.htm

Record retention if school is a lender
If a school is a lender and the holder of a promissory note, the school has additional record retention responsibilities comparable to those in 682.414(a)(4(ii)

- A copy of the loan certification that the school sends to the lender (in FFEL) or the Direct Loan Origination Center, including the amount of the loan and the period of enrollment. The requirement includes certification information submitted electronically.

- The cost of attendance, estimated financial assistance, and estimated family contribution used to calculate the loan amount (and any other information that may be required to determine the borrower's eligibility, such as the student's Federal Pell Grant eligibility or ineligibility).

- The date(s) the school disbursed the loan funds to the student or to the parent borrower. (For loans delivered to the school by check, the date the school endorsed each loan check, if required.)

- For loans delivered by electronic funds transfer or master check, a copy of the borrower's written authorization to deliver the initial and subsequent disbursements of each loan.

- Documentation of any confirmation process or processes associated with multi-year use of the MPN. Note: This documentation must be kept indefinitely, because it must be submitted to the Department upon request if a borrower challenges the enforceability of a loan.

A school must keep records relating to a student or parent borrower's eligibility and participation in the Direct Loan or FFEL program for three years after the end of the award year in which the student last attended the institution. A school must keep all other records relating to the school's participation in the Direct Loan or FFEL program for at least three years after the end of the award year in which the records are submitted.

Audits

At least once a year a school that participates in any SFA Program must have an independent auditor conduct a compliance audit and a financial statements audit. More information is provided in *Volume 2: Institutional Eligibility and Participation* and the *Audit Guide: Audits of Student Financial Assistance Programs.* (Both publications are available in electronic format at ifap.ed.gov)

Effective July 1, 2000, institutions that have disbursed less than $200,000 of SFA program funds for two consecutive completed award years may apply for a waiver of the annual audit submission requirement if they meet all of the conditions in 34 CFR 668.27. If granted, the waiver permits compliance audits and financial statement audits to be submitted six months after the end of a three-year period or, in certain cases, after the end of a two-year period.

Under the waiver, compliance and financial statement audits are not required until six months after the end of the third fiscal year in which the institution last submitted a compliance and financial statement audit. For instance, suppose the last year your school submitted a compliance audit and financial statement audit was in the fiscal year ending December 31, 1999. If the school receives an audit submission waiver, it is not required to submit another compliance audit or financial statement audit until June 30, 2003, which is six months after its third fiscal year (FY 2002) following the audits submitted in its 1999 fiscal year.

However, the waiver is limited when a school intends to apply for recertification in an award year that is part of the third fiscal year referred to above. In that case, the school must submit its compliance audit and financial statement audit six months after the second fiscal year following the fiscal year for which the school last submitted audits.

Procedures for withdrawal from the FFEL or DL programs
For FFEL information, contact 202/708-9951
For Direct Loans, contact 202/205-0183

LOSS OF ELIGIBILITY OR WITHDRAWAL FROM LOAN PROGRAMS

If a school is notified that it has lost its eligibility to participate in the Direct Loan and/or FFEL programs and the school does not intend to appeal the decision, it must immediately inform all current and **prospective** students of its loss of eligibility. The school must also explain that it can no longer certify Direct Loans and/or FFELs for students or parents. If the school appeals its loss of eligibility within the required time frame, the school may continue certifying Direct Loans and/or FFELs during the appeal process. Once a final decision on the appeal is made, the school must take the appropriate action described in the Department's final appeal decision letter.

If a school loses eligibility or decides not to participate in Direct and/or FFEL programs, reinsurance of loans previously disbursed will not be affected, and interest subsidies will continue as long as each student maintains his or her required enrollment status. The student's grace period and eligibility for in-school status and in-school deferment also will not be affected by a school's loss of eligibility.

If a school plans to withdraw from participation in the Direct Loan and/or FFEL programs, it must notify the appropriate guaranty agency or agencies (for FFEL schools) and the Department (for schools with either loan program) of its decision in writing. Once the effective date of withdrawal has been established, the school is prohibited from disbursing loan funds to the student (with one exception, discussed in the following paragraph). Any loan funds that cannot be disbursed must be returned to the lender within 30 days.

If the first payment of a Stafford Loan was made to the student before the school ceased to be eligible, the school may be able to make a subsequent disbursement to the student if it continues to provide instruction and the loan meets the other requirements in 668.26(d)(2) and (3). However, if a school loses eligibility before it

Cohort Default Rate Guides
This chapter only provides a brief overview of the default rate process For more technical information, please refer to the **Official Cohort Default Rate Guide.** *The Guide is updated annually and is available with other Default Rate Materials on the IFAP Web site.*

Questions about Default Reduction

U.S. Department of Education
Default Management
Portals Building, Room 6300
400 Maryland Avenue, SW
Washington, DC 20202-5353

Telephone:

202/708-6048
Hotline: 202/708-9396

E:mail:

OSFA_IPOS_Default_Management_Division
@ed.gov

delivers **any** loan proceeds to the student, the school is not permitted to deliver the loan proceeds to the student.

If a foreign medical school loses eligibility to participate in the FFEL Program, its students who were continuously enrolled at the school before the loss of eligibility may receive FFELs through the next academic year.

COHORT DEFAULT RATES

Generally speaking, a cohort default rate is the percentage of a school's student borrowers who enter repayment on Stafford loans during a particular fiscal year (FY) and default before the end of the next fiscal year. (There are other criteria and exceptions — see the complete definition in the *Official Cohort Default Rate Guide.)*

The Department releases draft cohort default rates to allow schools an opportunity to review and/or correct the data that will be used to calculate their official cohort default rates. In the early fall of each year, the Department then issues the official cohort default rates. The most recent official default rate, issued in September 2000, is based on the cohort of students who entered repayment in the 1998 fiscal year. These rates were mailed to schools and are posted on the Web at:

www.ed.gov/offices/OSFAP/defaultmanagement/cdr.html

If your school has a default rate above established threshholds, it may be subject to certain sanctions. Conversely, a school with default rates below other established threshholds may be exempted from certain of the disbursement requirements discussed in Chapter 4. For more information, please refer to the *Official Cohort Default Rate Guide.*

SCHEDULE OF LESSONS FOR CORRESPONDENCE STUDY

A school that offers correspondence coursework as a part of its associate, bachelor, or graduate degree programs must establish a lessons submission schedule and give that schedule to prospective students before they enroll. The course schedule must include

- a due date for each course lesson;
- if available, a description of any options for altering the sequence of lesson submissions;
- the course completion date; and
- the date that resident training must begin, its location, and the time frame for completing the resident training.

Borrower Eligibility for DL/FFEL

CHAPTER 2

To receive a Stafford Loan, a student borrower must meet the basic eligibility requirements for SFA funds (citizenship, selective service registration if applicable, etc.). In addition, the student must be enrolled at least half time to receive a loan. A parent borrower must meet certain nonacademic requirements, such as citizenship, while the student who is to benefit from the PLUS loan must be enrolled at least half-time and otherwise eligible to receive SFA funds. Unlike Pell Grants, the loan amounts do not vary by enrollment status (though the student must be enrolled at least half-time for Stafford and PLUS loan purposes).

To receive a Stafford Loan or to benefit from a PLUS Loan, a student must meet the general eligibility criteria for all SFA programs, as explained in *Volume 1: Student Eligibility*. In particular, note that a student or a parent who owes a repayment on an SFA grant or is in default on an SFA loan is ineligible for additional SFA funds. In addition, the parents may not receive a PLUS Loan for the student's benefit if the student owes a repayment on an SFA grant or is in default on an SFA loan is ineligible for additional SFA funds. (However, if the defaulted borrower repays the loan or makes satisfactory arrangements to repay the loan, he or she regains eligibility to borrow from the SFA programs—see Volume 1 of the *SFA Handbook*).

ELIGIBLE PREPARATORY COURSEWORK

Generally, a student must be enrolled or be accepted for enrollment in a degree or certificate program to receive SFA funds. However, there are three exceptions that apply to the FFEL/DL programs.

- **Undergraduate preparatory work.** An otherwise eligible student may apply for a Stafford Loan for a single consecutive 12-month period if the school has determined and documented that the coursework is necessary in order for the student to enroll in an undergraduate degree or certificate program and if the student is enrolled at least half-time. This category of students may borrow at the first-year undergraduate loan level, and the loan limit is not prorated if the program is less than an academic year. Loan limits are explained in Chapter 3 of this volume.

Cost of Attendance

Section 472 of the Higher Education Act of 1965, as amended.

- **Graduate preparatory work.** An otherwise eligible student may apply for a Stafford Loan for a single consecutive 12-month period if the school has determined and documented that the coursework is necessary in order for the student to enroll in a graduate or professional program and if the student is enrolled at least half-time. This category of students may borrow at the fifth-year undergraduate loan level, and the loan limit is not prorated if the program is less than an academic year. The school must document that the coursework is needed before the student can be admitted into a degree or certificate program.

- **Coursework required for teacher certification.** A student with a baccalaureate degree who is enrolled at least half-time in coursework necessary for a credential or teacher certification at the elementary or secondary level may apply for a Stafford Loan without being enrolled as a regular student. The school's records must indicate that the courses taken are required by the state where the student will be teaching. Such students may borrow at the fifth-year undergraduate loan level, and the loan limit is not prorated if the program is less than an academic year.

A student is **ineligible** to receive a Stafford Loan or a Federal Perkins Loan (see the *SFA Handbook: Campus-Based Programs Reference*) while in a medical internship or residency program, unless the internship is part of the school's degree program. This restriction does **not** apply to students in dental internship programs.

SUBSIDIZED AND UNSUBSIDIZED LOANS

The federal government pays the interest on a **subsidized** student loan during in-school status, grace periods, and authorized deferment periods. To qualify for a subsidized Stafford Loan, a student must have financial need.

A borrower unable to qualify for a need-based Stafford Loan may apply for an unsubsidized Stafford Loan. Also, a student able to qualify for only a part of the subsidized Stafford Loan limit may apply for an unsubsidized Stafford Loan to cover the difference between the annual loan limit and the subsidized amount.

An **unsubsidized** student loan does not qualify for a federal interest subsidy. In most cases, the interest that accumulates on an unsubsidized loan will be capitalized and added to the principal balance. Thus, while a student with a $1,000 unsubsidized Stafford will receive the same educational benefit as a student with a $1,000 subsidized Stafford, the cost of repaying the loan will be higher. Note that all PLUS loans are unsubsidized loans.

DETERMINING FINANCIAL NEED

Basically, a student's need for a **subsidized** Stafford Loan is his or her cost of attendance (COA) minus the Expected Family Contribution minus the Estimated Financial Assistance that the student will receive.

Cost of Attendance

Volume 1, Chapter 10 of the *SFA Handbook* explains the components of the cost of attendance for the SFA programs. For purposes of Stafford and PLUS loans, it's helpful to remember that the origination fee and the insurance fee (FFEL only) can be included in the cost of attendance.

If you are used to working with the Pell Grant Program, you may be unfamiliar with the treatment of costs for a portion of an academic year. In Pell, the Cost of Attendance is always based on the cost of a student attending a full academic year full-time. For Stafford and PLUS, the costs reflect the student's actual attendance and academic workload. For instance, if a student is only attending one semester of an academic year, the student's costs for tuition and living expenses, etc., would be roughly half that for a student attending both semesters. You may simply prorate the allowance for a 9-month academic year, or calculate the cost in any other reasonable way.

Expected Family Contribution (EFC)

The expected family contribution (EFC) is based on the family's income and expenses, as reported on the *Free Application for Federal Student Aid* (FAFSA). The EFC is used as the "need analysis" figure for subsidized Stafford loans, but unsubsidized Stafford and PLUS loans do not use the EFC. See *Volume 1: Student Eligibility* for a detailed discussion of how the application process produces the student's EFC.

As with the Cost of Attendance, you will need to use a prorated EFC if the student's period of enrollment is going to be shorter than nine months. Prorated EFC figures are calculated by the ED application processing system, and provided to your school as a part of the ISIR.

Estimated Financial Assistance (EFA)

The student's **expected financial assistance** is the amount of aid he or she will receive for the enrollment period covered by the loan. The Pell Grant and most other sources of state, federal, private, and institutional financial aid are considered part of the EFA that reduces the student's overall financial need. When certifying a loan, you have to subtract the student's EFA from the cost of attendance, regardless of whether the loan is subsidized or unsubsidized.

Most forms of aid are easy to recognize, usually taking the form of scholarships, grants, loans, or work that is awarded on the basis of postsecondary enrollment. But there are two notable government programs that are treated a little differently. **Montgomery GI Bill**

Maximum for Subsidized Stafford:

Cost of Attendance
- Expected Family Contribution
- Estimated Financial Assistance
= Maximum Loan Amount

Maximum for Unsubsidized Stafford and for PLUS:

Cost of Attendance
- Estimated Financial Assistance
= Maximum Loan Amount

Need and Religious Orders

As explained in Volume 1: Student Eligibility, *because students who are members of certain religious organizations are considered to have no financial need for SFA program purposes, such students are not eligible for need-based SFA funds. They may, however, be eligible for unsubsidized Stafford Loans or unsubsidized Consolidation Loans, or, if dependent, for PLUS Loans. (PLUS Loans are also unsubsidized.)*

Offsetting the EFC Example:

Janet Jones is an independent student with an $8,000 cost of attendance, an EFC of $2,000, and is receiving a $3,000 Pell Grant, a $2,000 subsidized Stafford Loan, and a $2,000 low-interest loan from a research foundation.

There is no overaward in this situation, as the $2,000 research loan can be considered as a substitute for that portion of her EFC. In fact, Janet is still eligible for up to $1,000 in the form of an unsubsidized Stafford Loan.

active duty benefits (veterans educational benefits paid under Chapter 30 of Title 38) and **National Service Education Awards (AmeriCorps)** and post-service AmeriCorps benefits are not counted in the EFA for subsidized Stafford Loans. However, you *do* include these benefits in the EFA when certifying an unsubsidized Stafford or PLUS. (See 34 CFR 682.200(b) and 34 CFR 685.102(b))

Unsubsidized SFA loans and some other loans can be used to offset (substitute for) part or all of the student's EFC for the SFA programs, in effect removing that amount of aid from Estimated Financial Assistance:

- Unsubsidized Stafford Loans and PLUS borrowed for that student.
- Loans made by the school to assist the student.
- State-sponsored and private education loans.

Note, however, that any amounts of these forms of aid that exceed the EFC must be counted as Estimated Financial Assistance.

Considering grants and subsidized loans first

The law requires aid administrators to consider whether the student is eligible for certain other SFA programs that would reduce his/her indebtedness.

If your school participates in the Federal Pell Grant Program you must determine an undergraduate student's Pell Grant eligibility before certifying a subsidized or unsubsidized Stafford Loan for that student. If the student is eligible for a Pell Grant, you cannot certify a loan until the student has applied for a Pell Grant for the same enrollment period that will be covered by the loan.

In addition, you cannot certify an unsubsidized Stafford Loan without first determining the student's need for a subsidized Stafford Loan. Because of the interest subsidy, the repayment amount for a subsidized Stafford is less than the amount for the same amount borrowed with an unsubsidized loan. However, if the amount of the subsidized Stafford is $200 or less and the amount can be included as part of an unsubsidized Stafford Loan, you are not required to certify a separate subsidized loan.

You may certify a PLUS and disburse PLUS funds without first determining the student's Pell Grant and subsidized Stafford Loan eligibility. However, you cannot make a late disbursement of a PLUS Loan unless you have received a *Student Aid Report* (SAR) or an *Institutional Student Information Record* (ISIR) for the benefiting student before the date the student graduated, withdrew, was expelled, or dropped below half-time enrollment. The SAR or ISIR must contain an official EFC.

USING NSLDS TO CHECK ELIGIBILITY FOR TRANSFERS

If the admissions office hasn't already done so, the financial aid office must determine whether a student previously attended an eligible school. If the student has attended another postsecondary school, you must check the student's financial aid history using the National Student Loan Data System (NSLDS). A student who has attended another postsecondary school may have already received some FFEL/DL funds that must be counted as part of the annual or aggregate loan limits. It's also possible that the student owes a repayment on a grant or a defaulted loan from the SFA programs, which would mean that the student is no longer eligible for SFA funds.

For many years, the only way a school could verify what aid a transfer student had previously received was to contact the student's prior school(s) and request a financial aid transcript. Since 1996, schools have been authorized to rely on information from the NSLDS to determine if a student transferring between academic years had previously received aid. However, there were restrictions on the use of NSLDS to confirm the previous aid for a "mid-year" transfer student, because of the turnaround time required for award information to be collected from schools and lenders and reported to NSLDS. For the 2000-2001 award year, however, these restrictions have been modified to make it easier for you to use NSLDS to check on the previous aid received by transfer students.

Beginning July 1, 2000, you may obtain student eligibility information for a mid-year transfer student directly from NSLDS instead of obtaining a paper FAT from the prior school. You must access the NSLDS no earlier than 30 days prior to the beginning of the first payment period for which you expect to make an SFA disbursement to the student. For example, if the mid-year transfer student will begin attending the new school for the Spring term that starts on January 29, you must access NSLDS on or after December 29. By checking NSLDS no earlier than 30 days before the payment period, you increase the probability that any late payments made for attendance at other schools will be reported on NSLDS.

You may rely on NSLDS information in determining a student's eligibility for SFA funds, either by querying NSLDS for individual students or using the batch process to request financial aid histories for multiple students. It is important to remember that NSLDS information provided as part of the Institutional Student Information Record (ISIR) does not meet the new requirement unless the ISIR was processed by the CPS within the 30-day period preceding the student's first payment period at your school.

You may **not** release funds to a student if the information from NSLDS or a Financial Aid Transcript states that the student is in default on an SFA loan or that the student owes a repayment on an SFA grant. See Volume 1 of the *SFA Handbook (Student Eligibility)* for information on how to resolve these eligibility issues.

Financial Aid History Requirement & NSLDS

Additional information on how this requirement applies to all of the SFA programs can be found in Volume 2, Chapter 3 of the SFA Handbook, and Dear Partner Letter GEN 00-12

Using NSLDS

The NSLDS User's Guide and other materials are currently posted on IFAP under "Current SFA Publications." Technical assistance for NSLDS is available by calling 1-800-999-8219

Parent Eligibility for PLUS

See 34 CFR 682.201(b)
See 34 CFR 685.200(b)

PARENT BORROWER ELIGIBILITY

For the purpose of determining PLUS Loan eligibility, a parent is a student's biological or adoptive mother or father. The spouse of a parent (i.e., the student's stepparent) who has remarried is also eligible to borrow a PLUS on the student's behalf, if his/her income and assets would be taken into account when calculating the dependent student's EFC. A legal guardian is not considered a parent for any SFA purposes.

A parent may receive a PLUS Loan only to pay for the educational costs of a dependent undergraduate student who meets the eligible student definition. A parent may not borrow a Direct PLUS Loan and a Federal PLUS Loan on behalf of the same student for the same enrollment period at the same school.

A parent must meet the same citizenship and residency requirements as a student. Similarly, a parent who owes a refund on an SFA grant or is in default on an SFA loan is ineligible for a PLUS Loan, unless he/she has made satisfactory arrangements to repay the loan. However, the parent's ineligibility for a PLUS Loan does not affect the student's eligibility for SFA funds. See *Volume 1: Student Eligibility* for more information on these general eligibility criteria.

To receive a PLUS Loan, a parent must provide his or her Social Security Number as well as that of the student on whose behalf the parent is borrowing. Like a student borrower, a parent borrower must also submit a Statement of Educational Purpose. He or she does not, however, have to complete a Statement of Selective Service Registration.

If the parent borrower has previously borrowed from the FFEL Program, he or she must reaffirm any FFEL amount on which collection activity has ceased, as described in 34 CFR 682.201(a)(4) for students. If the parent had a prior FFEL loan that was cancelled for total and permanent disability, the parent must obtain a physician's certification and provide a statement as described in 34 CFR 682.201(a)(6). Finally, a parent is not eligible for a PLUS loan if the federal government holds a judgment lien on his/her property.

Adverse Credit History

A parent with an adverse credit history is prohibited from obtaining a PLUS Loan unless the parent meets additional criteria, discussed below. The lender or the Direct Loan Origination Center obtains a credit report on each applicant for a loan from at least one national credit bureau. An applicant is considered to have an adverse credit history if

- he or she is 90 days or more delinquent on any debt; or
- during the 5 years preceding the date of the credit report, he or she has been determined to be in default on a debt, his or her

debts have been discharged in bankruptcy, or he or she has been the subject of foreclosure, repossession, tax lien, wage garnishment, or write-off of an SFA debt.

A lender is permitted to establish a more stringent definition of adverse credit history than these regulatory criteria. Please note that a parent cannot be rejected for a PLUS Loan on the basis of having no credit history. In other words, the absence of a credit history **cannot** be construed as an adverse credit history.

A parent with an adverse credit history may instead secure an endorser without an adverse credit history in order to qualify for a PLUS Loan. The endorser for this purpose may not be the dependent student for whom the parent is borrowing. Instead of securing an endorser, a parent may instead appeal a determination of adverse credit history to the lender by documenting extenuating circumstances. The lender has the final decision on whether or not to make a loan to the parent.

List of Guaranty Agencies
SFA maintains a current listing of guaranty agencies on the Web at: www.ed.gov/offices/OPE/guaranty.html

REFUSING TO ORIGINATE/CERTIFY A LOAN

A school may choose not to certify or originate a Stafford or PLUS loan, or may certify it for a reduced amount. Such decisions must be made on a case-by-case basis and must not be part of a pattern or practice that denies access to loans because of borrowers' race, gender, color, religion, national origin, age, disability status, or income. You must notify the borrower in writing of the reason for the decision, and keep documentation supporting the decision in the student's file. (34 CFR 682.603 and 34 CFR 685.301)

FFEL LENDER OF LAST RESORT

A student who is otherwise eligible for a subsidized Stafford Loan and, after not more than two rejections, has been unable to find an FFEL lender willing to make such a loan, should contact the guaranty agency in his or her state of residence or the guaranty agency in the state in which the student's school is located. The guaranty agency either must designate an eligible lender to serve as a lender of last resort (LLR) or must itself serve in that capacity and must respond to the student within 60 days. An LLR cannot make a loan that exceeds the borrower's need, nor is it required to make a loan for an amount less than $200. The LLR, as with any other lender, may refuse to make the loan if the borrower fails to meet the lender's credit standards. Each guaranty agency is required to develop rules and procedures for its LLR program.

LOAN FEES

An "origination fee" is charged for Stafford Loans in both the FFEL and the DL programs. For FFEL, the fee may not exceed 3% of the principal amount of the loan. A 3% origination fee is deducted for all Direct Stafford Loans. The fee is deducted proportionately from each payment forwarded to the school by the FFEL lender or the DL Loan Origination Center.

A lender may charge a lower origination fee, but, with one exception, it must charge the lower fee for *all* of the subsidized Stafford Loans that it makes. The exception is a sub-group of Stafford borrowers specified in the regulations — those who qualify for a subsidized Stafford loan or who have an EFC low enough to qualify for a Pell Grant.

If a lender charges a lower origination fee, it must charge the same reduced fee on *all* Stafford loans it makes to borrowers who live in the same State or attend school in the same State. Similarly, if the lender applies the lower fee to a borrower's unsubsidized Stafford loan, the lender must also apply the lower fee to the borrower's subsidized Stafford loans. (See 34 CFR 682.202(c)).

For PLUS loans in the FFEL program, the origination fee is always 3% and may not be reduced by the lender. In Direct Loans, the origination fee for a PLUS is 4%.

In the FFEL program, the lender may also charge an insurance fee on Stafford and PLUS loans to defray the insurance fee charged by the guarantor (the fee is limited to 1%).

While you must still include the whole awarded amount of Stafford and PLUS loans when packaging, you may include the origination and insurance fees in the student's cost of attendance.

Determining the Loan Period and Amounts

CHAPTER 3

The rules for awarding Stafford and PLUS loans are a little different than for Pell Grants and other SFA programs. In particular, the definitions of a "loan period" and the disbursements within that period may not always fit the academic year and payment period measurement used for Pell. Proration is required for a program (or the remaining portion of a program) shorter than an academic year, but the calculation is different than in other programs.

DETERMINING THE LOAN PERIOD

It's important to define the period of enrollment or loan period at the outset, because the length of the loan period will determine the amount and frequency of disbursements. If your school uses academic terms (such as academic year, semester, trimester, quarter or nonstandard term), the loan period must coincide with one or more of its academic terms. Loan periods for schools that do not use terms are generally based on the length of the program or academic year.

For programs using terms and credit hours, the **minimum** loan period is a single academic term. As an example, if a student enrolls in a fall semester to complete his/her requirements for graduation, you may certify a loan for that term alone. (Remember, however, that the loan amount must be based on costs and EFC for that term, rather than for the full academic year.)

For a clock-hour school or a credit-hour school that does not use terms, the **minimum** period for which the school may certify a loan is the shortest of the following three periods:

- the academic year as defined by the school (but no less than 30 weeks of instruction providing 900 clock hours, 24 semester hours, or 36 quarter hours);
- the length of the student's program at the school (see sidebar on minimum program length); or
- the remaining portion of the student's program that exceeds the school's academic year.

In the case of a student who has already completed some of the coursework to earn a degree or certificate (e.g., a transfer student or a student who is re-enrolling after withdrawing), you may certify the loan for the remaining period of study at your school.

Minimum and Maximum Loan Periods

Maximum = generally school's academic year but not more than 12 months.

Minimum (term/credit hour program) = one academic term

Minimum (clock hour or non-term program) = lesser of academic year, program length, or remaining portion of academic year

Minimum Program Length

Minimum program lengths are discussed in Volume 2 of the Handbook. For purposes of the FFEL/DL programs, a program at a proprietary school or a postsecondary vocational school must include at least 10 weeks of instruction providing at least 300 clock hours, 8 semester hours, or 12 quarter hours.

Scheduled Academic Year Example — Term Program

The Springfield Academy also offers a two-year program measured in semesters and awarding credit hours. It defines its academic year as two smesters providing 30 weeks of instruction. Springfield has Fall, Spring, and Summer sessions, but most of its students do not attend the summer session. Therefore, Springfield Academy uses a Scheduled Academic Year that starts September 7 and concludes May 21 and certifies most loans for that period of enrollment.

Scheduled Academic Year

Only used for programs using credit hours and terms.

Academic Year = 2 Semesters

1st pp	2nd pp
Fall	Spring

Academic Year = 3 Quarters

1st pp	2nd pp	3rd pp
Fall	Winter	Spring

The **maximum** loan period is generally the school's academic year but cannot exceed a 12-month period. It is possible, but not typical, to have more than one loan in an academic year.

ACADEMIC YEAR

As we've seen, the loan period is often measured in terms of an academic year. Briefly, an academic year is a period that contains at least 30 weeks of instructional time during which a full-time student is expected to complete at least 24 semester or trimester hours or 36 quarter hours at a school measuring program length in credit hours, or at least 900 clock hours at a school measuring program length in clock hours. Volume 2 of the *SFA Handbook: Institutional Eligibility and Participation* includes a more detailed treatment of the academic year for the SFA programs.

The academic year is also used when determining the student's annual loan limits. The annual limit for Stafford Loans is based on an academic year rather than a calendar award year. Once the student has reached the annual loan limit, he or she cannot receive another Stafford Loan until he or she begins another academic year.

Two types of academic year for loans

There are two types of academic years a school can use in determining when another year will begin for the student: a scheduled academic year (SAY) or a borrower-based academic year (BBAY). Clock-hour and nonterm credit-hour programs *must* use borrower-based academic years. Only term-based credit-hour programs can use SAYs. However, you may elect to use a borrower-based academic year for a term-based credit-hour program if the program's academic year provides at least 30 weeks of instruction (unless the Department grants a waiver for an academic year of less than 30 weeks).

For a term-based credit-hour program, the school can use BBAYs for all its students or just for students enrolled in certain programs, or it may use BBAYs on a student-by-student basis. The school can even alternate BBAYs with SAYs for a student, but the academic years must not overlap. A school that has these choices for academic year standards must have a written policy that explains how it applies these options when calculating loan eligibility.

Scheduled Academic Year

An SAY is a fixed period of time that generally begins and ends at the same time each calendar year (for example, beginning on the first day of the fall semester and ending on the last day of the spring semester). The SAY generally corresponds to the academic year or calendar that is published in the school's catalog or other materials. An SAY must meet the statutory requirements of an academic year, as described in the *SFA Handbook: Institutional Eligibility and Participation.*

Borrower-based Academic Year

As noted previously, a school must use BBAYs for clock-hour and nonterm credit-hour programs; the school may use either type of academic year for term-based credit-hour programs where the academic year provides at least 30 weeks of instruction.

A BBAY is not a fixed period of calendar time like an SAY; instead, the BBAY's beginning and end dates depend on an individual student's enrollment and progress. For example, a school that has new students beginning enrollment every month would use a BBAY for each student that begins in the month the student enrolls, rather than using an SAY that begins in the fall regardless of when the student actually begins classes. Like an SAY, the BBAY must meet the minimum statutory requirements for an academic year (unless a summer term is include or the Department grants a waiver for a term-based credit-hour program.)

In a program using terms and credit hours, the BBAY must include the same number of terms as the SAY the school would otherwise use (not including any summer session as a "trailer" or "header"). The BBAY may include terms and/or mini-sessions the student does not attend if the student could have enrolled **at least half time** in those terms or mini-sessions; however, unlike an SAY, the BBAY must begin with a term in which the student actually enrolled. Also, any mini-sessions (summer or otherwise) that run consecutively **must** be combined and treated as a single term. If the BBAY includes a summer term, the BBAY need not meet the 30-week minimum requirement for an academic year.

For a clock-hour or nonterm program, the BBAY begins when the student enrolls. Because the BBAY must meet the minimum statutory requirements for an academic year, the BBAY must contain at least 30 weeks of instructional time and the appropriate number of credit or clock hours (24 semester or trimester hours, 36 quarter hours, or 900 clock hours). The BBAY does not end until the student has completed the number of weeks **and** the number of hours in the academic year. A student who is attending less than full-time will take longer to complete the academic year than a full-time student.

Treatment of summer terms & "crossover periods"

For a program that uses SAYs, a summer term may be part of the academic year that preceded that term (that is, it may be a "trailer"), or it may be part of the academic year that follows that term (that is, it may be a "header"). For FFEL/DL purposes, a school can establish a policy that designates its summer term as either a trailer or header, or it can make different designations for different educational programs.

You may also designate the summer term as a trailer or header for each student on a case-by-case basis. However, if a student in a summer school session that overlaps two award years is also receiving campus-based aid, you must use the same EFC (from the same application year) for both the campus-based aid and the FFEL/DL loan.

Borrower Based Academic Year Example — Nonterm

Springfield Academy has a 1,350-clock-hour program, and defines its academic year as 900 clock hours and 30 weeks. An enrolling student may receive two Federal Stafford Loans during the program (provided all eligibility criteria are met) because the program exceeds one academic year. The period of enrollment for the first loan would be the time it will take the student to complete 900 clock hours. The period for the second loan would be the time it takes to complete the remaining 450 hours. Note that the student cannot receive the second loan until he/she has completed the first 900 hours of the program AND 30 weeks have elapsed.

Other BBAY Term Examples

Can also be used by credit-hour term programs—especially in cases where a student is enrolling in a different sequence of terms than the Scheduled Academic Year for that program.

Academic Year = 2 Semesters

1st pp	2nd pp
Spring	Summer

1st pp	not enrolled	2nd pp
Spring	Summer	Fall

Academic Year = 3 Quarters

1st pp	2nd pp	3rd pp
Spring	Summer	Fall

Annual and Aggregate Loan Limits
See 34 CFR 682.204 and 685.203; Dear Colleague letter GEN 97-3

Dependent Undergraduate Student Example
Jen, a first-year dependent student at Reid State U., applies for a Stafford Loan to attend a term beginning in September. Her COA is $12,000, and, based on her need, she qualifies for a subsidized Stafford Loan of $2,000. She may also apply for an unsubsidized Stafford Loan of $625, which is the difference between the the amount of her subsidized Stafford Loan ($2,000) and the Stafford Loan limit ($2,625) for a first-year undergraduate. Her parents may borrow a PLUS Loan to cover the remainder of the COA.

The choice of the application year to be used for need analysis purposes can be different than the designation of the term as a header or trailer for purposes of establishing the academic year for the loan. For instance, you may have a policy that treats the summer term for 2001 as a header to the academic year for the loan, but you may make an exception and use the EFC from the 2000-2001 FAFSA.

Summer mini-sessions can be grouped together as a single trailer or header, or they can be treated separately and assigned to different SAYs. If the summer mini-sessions are grouped and treated as a single term, the summer cost of attendance cannot include costs for a mini-session for which the student was not enrolled.

Additional loan eligibility in the same academic year

In general, once a student has reached the annual loan limit, he or she cannot receive another Stafford Loan until he or she begins a new academic year. A student who has already received one Stafford Loan within an academic year may receive additional loan funds if he or she has not yet reached the annual limit. In addition, a student who has already borrowed up to the annual limit within an academic year can receive additional loan funds if the annual limit increases, either because the student progresses to a grade level with a higher limit or because his or her dependency status changes to independent. In all cases, the student may borrow the difference between the amount already borrowed within the academic year and the student's loan limit. Usually, the increase in the loan amount can be made as an adjustment to the student's existing loan rather than making a new loan.

Note that for a nonterm program, the student will never progress to a higher grade level within an academic year and, thus, will only have a change in the loan limit if his or her dependency status changes. The student moves to a higher grade level only when he or she completes the BBAY.

ANNUAL LOAN LIMITS

Stafford loan limit for dependent undergraduates

A dependent student enrolled in a program of study that is at least an academic year in length may borrow combined subsidized and unsubsidized loans not to exceed an annual total of

- up to $2,625 for a *first-year student*;
- up to $3,500 for a *second-year student*;
- up to $ 5,500 for a *third-, fourth-,* or *fifth-year undergraduate,* or a student who already has an associate or baccalaureate degree and who is enrolled in an undergraduate program that requires an associate or baccalaureate degree for admission.

These loan limits represent the total of all subsidized and unsubsidized Stafford Loans a dependent undergraduate student may borrow at each level of study. A dependent undergraduate student who takes out both subsidized and unsubsidized Stafford Loans must not exceed the annual and aggregate limits allowed under the Stafford Loan Program. An unsubsidized Stafford Loan amount, subject to the loan limits described above, is the difference between the borrower's COA for the loan period and the borrower's EFA (including any subsidized Stafford Loan amount he or she will receive).

A student's academic year level for loan limit purposes is set according to the school's standards for the time normally required to complete a given grade level. However, if the school determines a program normally can be completed in two years of full-time study, a student in that program can never receive more than the second-year annual loan limit of $3,500 in any given year, no matter how long it takes the student to finish.

Stafford Loan limit for independent undergraduates & others without access to PLUS

Independent undergraduate students may borrow unsubsidized loans with additional loan limits. The additional loan limits also apply to dependent undergraduate students whose parents are unable to borrow PLUS loans due to exceptional circumstances. The regulations give several examples of possible exceptional circumstances affecting the parents' ability to borrow—adverse credit history, incarceration, or income limited to public assistance and disability benefits. Another exceptional circumstance might be if the parents' whereabouts are unknown. However, the parents' refusal to take out a PLUS loan does not constitute an exceptional circumstance.

The following unsubsidized loan limits may be added to the borrower's combined subsidized and unsubsidized loan limits. An independent undergraduate student enrolled in a program of study that is at least an academic year in length may borrow additional unsubsidized loan amounts not to exceed an annual total of

- up to $4,000 for a *first-year* or *second-year student*;
- up to $5,000 for a *third-, fourth-,* or *fifth-year undergraduate,* or a student who has an associate or bachelors degree that is required for admission into a program and who is not a graduate or professional student.

For instance, an independent student in the second year of study would be eligible to borrow a total of $7,500 in subsidized and unsubsidized loans.

For any loan period that begins on or after July 1, 2000, a school may not award additional unsubsidized loan funds to a dependent student based on the school's decision not to participate in the PLUS program.

Independent undergraduates and others without access to PLUS

FFEL—see 34 CFR 682.204(d) and 34 CFR 682.201(a)(3)
DL—see 685.203(c)

Independent Undergraduate Student Example

Dottie is a first-year independent undergraduate student at Ferrar's Institute. Her COA is $9,500. Dottie qualifies for a subsidized Stafford Loan of $1,500. She may apply for an unsubsidized Stafford Loan of $5,125 ($1,125 remaining under her initial Stafford Loan limit, plus a $4,000 unsubsidized Stafford Loan). Her total loan limit for her subsidized Stafford Loan and her unsubsidized Stafford Loan is $6,625.

Graduate and Professional Limits
See 34 CFR 682.204(a)(5), (c)(5) and 685.203(a)(5), (c)(2)(v)

PLUS Loan Limits
See 34 CFR 682.204(h) and 685.203(f)

Stafford Loan Proration
See 34 CFR 682.204(a), (d) and 685.203(a),(c)

When and When Not to Prorate
You must prorate a Stafford Loan if the student is enrolled in a program less than an academic year in length, or if the remaining term(s) of the program are less than an academic year.

Proration Example for Clock Hour Program Less Than Academic Year
Jill is a dependent student enrolled in a 12-week program at Frederick Career College. FCC defines the academic year for this program as 900 clock hours providing 30 weeks of instruction. Measured in clock hours, Jill's program is 400 clock hours long.

400hrs 12 wks	
Academic year=900 hrs/30 wks	

To determine the maximum loan amount she can borrow, convert the fractions based on weeks (12/30 = .40) and hours (400/900 = .44) to decimals. Multiply the smaller decimal (.40) by the first-year annual loan limit: $2,625 x .40 = $1,050.

The maximum combined subsidized and unsubsidized loan amount Jill can borrow for the program is $1,050.

Stafford Loan limits for graduate and professional students

The subsidized loan limit for a graduate or professional student is $8,500 per academic year. The additional unsubsidized loan limit for graduate or professional students is $10,000 per academic year.

Stafford Loan limits for coursework required for teacher certification/other programs

For students enrolled for no longer than one consecutive 12-month period in a course of study necessary for enrollment in:

- an undergraduate degree or certificate program, annual loan limits are $2,625 for subsidized Stafford loans and $4,000 additional in unsubsidized Stafford loans.

- a graduate or professional degree or certification program (for students with baccalaureate degrees), annual loan limits are $5,500 for subsidized Stafford loans and $5,000 additional in unsubsidized Stafford loans.

For students who have baccalaureate degrees and are completing coursework necessary for a professional credential or teacher certification (certification from a state that is required for employment as a teacher), the annual loan limits are $5,500 in subsidized Stafford loans and $5,000 additional in unsubsidized Stafford loans.

PLUS loan limits

A PLUS Loan may not exceed the student's estimated COA minus other financial aid awarded during the period of enrollment. This is the only borrowing limit for PLUS Loans.

PRORATED ANNUAL LOAN LIMITS FOR STAFFORD LOANS

Generally, a dependent or independent undergraduate may borrow up to the annual limit applicable to the student's year in school. However, the maximum amount an undergraduate student may borrow must be prorated, in certain situations. **PLUS Loans and loans for graduate or professional students are not subject to proration.**

There are two situations where you must prorate the annual limit for subsidized and unsubsidized Stafford loans:

- when a borrower is enrolled in a program that is shorter than a full academic year, and

- when a borrower is enrolled in a program that is one academic year or more in length, but is in a remaining period of study that is shorter than a full academic year. (The remaining period must be at least as long as the minimum loan period given at the beginning of this chapter.)

If a student drops or adds a course after you have originated a prorated loan, you **may** readjust the loan amount but you are not required to do so. Of course, a student who drops courses must still be enrolled **at least half time** to be eligible for any loan amount.

Prorating loans for programs of study shorter than a full academic year

When a student is enrolled in an academic program that is shorter than a full academic year in length, you must use a proportional proration that is based on the *lesser* of —

$$\frac{\text{Number of semester, trimester, quarter or clock Hours Enrolled}}{\text{Number of semester, trimester, quarter or clock Hours in the Academic Year}}$$

or

$$\frac{\text{Number of Weeks Enrolled}}{\text{Number of Weeks in the Academic Year}}$$

Schools may express the resulting fraction as a decimal to see more easily which is less or to calculate the prorated limit. The smaller fraction is then multiplied by the appropriate annual loan limit. The result is the prorated loan limit for the student.

Please bear in mind that the proration does not necessarily affect the amount of the loan. For instance, if a student's prorated loan limit is $2,100, but the student was only eligible for a $2,000 subsidized Stafford Loan based on costs, EFC, and other aid, then the proration would not affect the amount of the **subsidized** Stafford loan.

Prorating loans for remaining periods of study shorter than an academic year

You must also prorate loans for students enrolled in remaining periods of study shorter than an academic year. This situation arises when a student is enrolled in a program that is one academic year or more in length, but is in a remaining period of study that is shorter than an academic year.

Proportional proration is used in all cases of remaining periods of study less than a full academic year (see definition below) and is always based on:

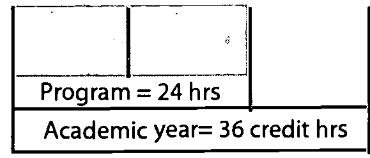
$$\frac{\text{Number of semester, trimester, quarter or clock Hours Enrolled}}{\text{Number of semester, trimester, quarter or clock Hours in the Academic Year}}$$

This fraction is multiplied by the appropriate annual loan limit to determine the prorated loan limit. There is no comparison of weeks and hours. Hours are always used.

Proration Example for Credit Hr Program< Academic Yr

Morgan is an independent student enrolled in a program at Frederick Career College that provides 24 quarter hours and 20 weeks of instruction. FCC defines the academic year for this program as 36 quarter hours providing 30 weeks of instruction.

Program = 24 quarter hrs
Annual Limit = $2,625
Prorated Limit= $1,759



To determine the maximum loan amount she can borrow, convert the fractions based on weeks (20/30 = .67) and quarter hours (24/36 = .67) to decimals. Multiply the smaller decimal (in this case, both are .67) by the first-year annual loan limits for subsidized and unsubsidized Stafford:

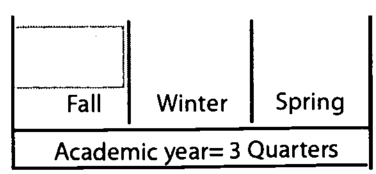
$6,625 x .67 = $4,439 total Stafford
$2,625 x .67 = $1,759 subsidized

The maximum combined subsidized and unsubsidized Stafford amount Morgan can borrow for the program is $4,439, with the subsidized loan amount limited to $1,759.

Proration Example for Remaining Period < Academic Yr

Rudy has attended 6 quarters in a 2-year program at Beulah Community College, but to finish the program, he needs to attend an additional quarter as a half-time student. Rudy is a dependent undergraduate student, and BCC defines its academic year as 30 weeks and 24 semester hours.

Remaining period of study: Annual Stafford limit = $3500



To determine the basic prorated subsidized/ unsubsidized loan amount, convert the fraction based on hours (1/3 = .33) to decimals. Multiply this decimal by the second-year undergraduate annual loan limit: $3,500 x .33 = $1,155.

Proration Example for Remaining Period with Separated Terms

O'Donnell Institute has an academic year that consists of three quarters: fall, winter, and spring. Rosie will be enrolling in the fall and spring quarters, but not the winter quarter, and will graduate at the end of the spring quarter.

1st pp	not enrolled	3rd pp
Fall	Winter	Spring

Because the fall quarter is in the same academic year as Rosie's final quarter, it is part of the final period of study, even though there is a term between the final quarter and the fall quarter in which she will not enroll. Because the fall quarter is part of the final period of study, the loan Rosie receives in the fall must be prorated, just as her spring loan must be prorated.

Note on fractions and decimals for pro-rating Stafford loans

It is acceptable for schools to convert the fraction to a decimal and then multiply the annual loan limit by the decimal, but they are not required to do so. Schools may still choose to multiply the annual loan limit by the original fraction. However, they should be consistent in the method they use, since the fraction and decimal calculations sometimes result in slightly different prorated loan limits. (The decimal method will generally - if not always - result in an amount that is equal to or slightly higher than the amount calculated using the original fraction.)

Aggregate Loan Limits

See 34 CFR 682.204(b), (e) and 685.203(d), (e)

Note that the Higher Education Amendments of 1998 provide that interest capitalized on unsubsidized Stafford Loans shall not be counted against the borrower's aggregate loan limits.

At a **term-based credit hour** school (where the academic year is measured in semesters, trimesters, quarters, or other terms), a remaining period of study is considered shorter than an academic year if the remaining period consists of fewer terms than the school's scheduled academic year. For example, a student might have completed two academic years of study at a community college, and have received two Stafford Loans, but need to attend an additional quarter term to complete his/her program requirements. That final quarter term would fall in a new academic year, and would have to be prorated, since it is a remaining period of study that is less than a full academic year. Terms within the same academic year as the student's final term are considered part of the final period of study, even if separated from the final term by a term in which the student is not enrolled.

At a **term-based clock hour** school (where the academic year is measured in semesters, trimesters, quarters, or other terms), a remaining period of study is considered shorter than an academic year if the final period consists of fewer terms than the school's scheduled academic year **or** fewer clock hours than the minimum statutory requirements for a full academic year. As with credit-hour terms, all terms within the same academic year are considered part of the final period of study, even if separated from the final term by a term in which the student is not enrolled.

At a **nonterm** school (where programs are measured only in clock or credit hours), a remaining period of study is considered less than an academic year if the remaining period consists of fewer clock or credit hours than the minimum statutory requirements for a full academic year.

AGGREGATE LOAN LIMITS

The maximum outstanding **total subsidized and unsubsidized** Stafford Loan debt is:

- $23,000 for a dependent undergraduate student,
- $46,000 for an independent undergraduate student (or a dependent undergraduate student whose parents do not qualify for PLUS loans). No more than $23,000 of this aggregate amount may be in the form of subsidized loans.
- $138,500 for a graduate or professional student (including loans for undergraduate study). No more than $65,500 of this aggregate amount may be in the form of subsidized loans.

If the student has borrowed Stafford Loans at other schools, the National Student Loan Data System is the best source of information on the student's current outstanding principal balance. The outstanding principal balance reflects the original amount of loan principal (including the loan fees, but not including any

Annual Limits for Stafford Loans

	Subsidized	*Total (subsidized & unsubsidized)*
Dependent Undergraduates		
First Year	$ 2,625	SAME
Second Year	$ 3,500	SAME
Third Year and Beyond	$ 5,500	SAME
Independent Undergraduates & Others Without Access to PLUS		
First Year	$ 2,625	$ 6,625
Second Year	$ 3,500	$ 7,500
Third Year and Beyond	$ 5,500	$ 10,500
Graduate & Professional Students		
All Years of Study	$ 8,500	$ 18,500

Note: All undergraduate annual loan amounts are subject to proration.

Aggregate Limits for Stafford Loans

	Subsidized	*Total (subsidized & unsubsidized)*
Dependent Undergraduates	$ 23,000	SAME
Independent Undergraduates & Others Without Access to PLUS	$ 23,000	$ 46,000
Graduate & Professional Students	$ 65,500	$ 138,500

Note: Certain health professions students may qualify for higher annual & aggregate limits—see discussion at end of this chapter.

capitalized interest that was added later), minus the amount of loan payments that have been credited against the principal.

These maximums include any amounts borrowed under the Direct Loan and FFEL programs (including Consolidation Loans). Any outstanding Federal Supplemental Loans for Students (SLS) that a borrower has count as unsubsidized loans against the borrower's aggregate loan limit.

If a student who previously received undergraduate and graduate degrees returns to school to complete a second undergraduate program, only the loans that the student received for the first undergraduate program are included in determining the student's remaining loan eligibility for the second undergraduate program. If the total amount received for the first undergraduate program does not exceed the undergraduate aggregate loan limits, the student may receive additional funds for the second program, up to the undergraduate aggregate limits.

Although loans received for graduate study are not counted toward a student's undergraduate aggregate loan limit, the combined loan amounts received for undergraduate and graduate programs may not exceed the total allowable aggregate loan limits.

A borrower who has reached his or her aggregate borrowing limit may not receive additional loans. Once the loans are repaid, in full or in part, the borrower may apply for additional Stafford Loans.

Example: Combining Undergraduate and Graduate Subsidized/Unsubsidized Loan Limits

An independent student received the following loan amounts for a first undergraduate program and a graduate program:

	First undergraduate program:	Graduate program:	Total:
subsidized	**$20,500**	**$45,000**	**$65,500**
unsubsidized	**$10,000**	**$40,000**	**$50,000**

The student has now enrolled in a second undergraduate program. Only the loans received for the first undergraduate program are counted toward the student's *undergraduate* aggregate loan limit. Since the total amount received for the first undergraduate program ($30,500) does not exceed the aggregate loan limit for an independent undergraduate ($46,000, maximum $23,000 subsidized), the student has remaining loan eligibility of up to $15,500 for the second undergraduate program.

However, the loans received for the graduate program must be considered in determining whether the student has exceeded the *total* aggregate loan limits. In this case, the total subsidized amount already received ($65,500) is the maximum subsidized amount that a student may receive for undergraduate and graduate study combined. Therefore, the student may receive only unsubsidized loans for the second undergraduate program.

Increased Eligibility for Health Professions Students

The Health Education Assistance Loan (HEAL) Program, a loan program for health professions students administered by the Department of Health and Human Services, was gradually phased out beginning in 1995. The phaseout has now been completed, and no further HEAL Program loans are being made. To replace loan funds that otherwise would have been available under the HEAL Program, certain health professions students may borrow increased unsubsidized Stafford loan amounts.

With the complete phaseout of HEAL, the Department has removed the earlier restrictions that limited participation to schools that had disbursed HEAL loans in fiscal year 1995 and to students who, as of October 1, 1995, were not HEAL borrowers.

Increased Unsubsidized Amounts for Health Professions Students

For any loan period beginning on or after May 1, 1999, schools may award the increased unsubsidized amounts to students who are enrolled full-time in a health professions discipline that (1) was eligible under the HEAL Program and (2) is accredited by an approved accrediting agency. (See "Dear Partner" Letter GEN-99-21.) The disciplines that were eligible under the HEAL Program and the approved accrediting agencies for these disciplines are shown in the loan limit chart on the next page for the increased unsubsidized amounts.

While the HEAL Program required a need analysis test, the EFC is not used to determine need for unsubsidized Stafford Loans.

Increased Annual Loan Limits

Because the increased annual unsubsidized Stafford loan limits are intended to replace funds that would have been available previously under the HEAL Program, the annual loan limits for the increased unsubsidized amounts are the same as the HEAL Program annual loan limits. The chart on the next page shows the annual loan limits for the increased unsubsidized amounts, which vary by discipline and academic year (AY) length, as well as the approved accrediting agency for each discipline.

Increased Aggregate Loan Limits

Graduate and Professional. The combined subsidized/unsubsidized aggregate loan limit for graduate and professional health professions students who are eligible to receive the increased unsubsidized amounts is $189,125 (not more than $65,500 of this amount may be in subsidized loans).

This increased aggregate loan limit would permit a student to receive the current maximum Stafford annual loan limits for four years of undergraduate study ($6,625 + $7,500 + $10,500 + $10,500) and four years of graduate/professional study ($18,500 x 4), plus the maximum increased unsubsidized loan limit for a 9-month academic year for four years of graduate/professional study ($20,000 x 4).

Undergraduate. The combined subsidized/unsubsidized aggregate loan limit for undergraduate health profession students (Bachelor of Science in Pharmacology) who are eligible to receive the increased unsubsidized amounts is $70,625 (not more than $23,000 of this amount may be in subsidized loans).

This increased aggregate loan limit would permit a student to receive the current maximum Stafford annual loan limits for five years of undergraduate study ($6,625 + $7,500 + $10,500 + $10,500 + $10,500), plus the maximum increased unsubsidized loan limit for a 9-month academic year for the fourth and fifth years of undergraduate study ($12,500 x 2).

Programs Eligible for:

Additional $20,000 in Unsubsidized Loans for a 9-month Academic Year
Additional $26,667 in Unsubsidized Loans for a 12-month Academic Year

Doctor of Allopathic Medicine	Accreditation: Liaison Committee on Medical Education
Doctor of Osteopathic Medicine	Accreditation: American Osteopathic Association, Bureau of Professional Education
Doctor of Dentistry	Accreditation: American Dental Association, Commission on Dental Accreditation
Doctor of Veterinary Medicine	Accreditation: American Veterinary Medical Association, Council on Education
Doctor of Optometry	Accreditation: American Optometric Association, Council on Optometric Education
Doctor of Podiatric Medicine	Accreditation: American Podiatric Medical Association, Council on Podiatric Medical Education

Additional $12,500 in Unsubsidized Loans for a 9-month Academic Year
Additional $16,667 in Unsubsidized Loans for a 12-month Academic Year

Master of Science in Pharmacology (and 4th/5th Yr. Bachelor's)*	Accreditation: American Council on Pharmaceutical Education
Graduate in Public Health	Accreditation: Council on Education for Public Health
Doctor of Chiropractic	Accreditation: Council on Chiropractic Education, Commission on Accreditation
Doctoral Degree in Clinical Psychology	Accreditation: American Psychological Association, Committee on Accreditation
Masters or Doctoral Degree in Health Administration	Accreditation: Accrediting Commission on Education for Health Services Administration

EXAMPLE OF ANNUAL LOAN LIMIT: The increased unsubsidized amounts that an eligible health professions student may receive are in addition to the regular Stafford annual loan limits. For example, a student enrolled in a 9-month Doctor of Dentistry program is eligible for the regular Stafford subsidized/unsubsidized annual loan maximum for a graduate/professional student ($18,500, not more than $8,500 of which may be subsidized), plus the maximum increased unsubsidized amount of $20,000, for a total Stafford loan maximum of $38,500.

* There is only one undergraduate program (Bachelor of Science in Pharmacology) that was eligible under the HEAL Program. In accordance with HEAL Program rules, a student enrolled in a Bachelor of Science in Pharmacology program may receive the increased unsubsidized amounts only for the fourth and fifth years of the program. In addition (consistent with regular Title IV requirements), a dependent undergraduate may receive the increased unsubsidized amounts only if the student's parent is unable to borrow a PLUS loan.

Starting the Loan Process: the MPN & the School's Role

CHAPTER 4

For Stafford Loans, the student must complete the FAFSA and later the Master Promissory Note. The school (or its servicer) certifies or originates (in DL) the loan, based on the borrower's loan eligibility and specifies the anticipated disbursement dates. Note that a school is required to provide entrance counseling (described in Chapter 5) to the student when making the borrower's first loan. The process of paying the loan funds to the borrower will be described in Chapter 6.

In this chapter, we'll cover the process of making a loan, specifying the actions and information required of the student and the school. The order of the elements that we list below may vary from school to school or between the two programs, but each of the elements is required to make a loan.

STUDENT APPLIES FOR AID & COMPLETES MPN

To receive a Stafford loan, a student must complete a Free Application for Federal Student Aid (FAFSA) and a Master Promissory Note (MPN). A student may obtain a Direct Loan MPN from a school or the Loan Origination Center, or an FFEL MPN from a school, guaranty agency, or lender. In some cases, the school will certify the loan based on the student's acceptance of the aid package, and the MPN will be sent to the student by the lender or the school's servicer. Regardless of the method used, the **Borrowers' Rights and Responsibilities** statement must be provided to the borrower with the MPN.

To receive a PLUS loan, a student's parent must complete an application and promissory note. (The MPN is not yet available in the PLUS Programs.) The student benefiting from a PLUS loan must also complete a portion of the PLUS loan application. A student not applying for aid from other SFA programs need not complete a FAFSA for the PLUS loan alone. A parent borrower must receive the **Borrowers' Rights and Responsibilities** statement with the loan application, but the loan counseling requirements don't apply to parents.

Required borrower information on MPN

Some of the information a borrower must provide on the MPN are his or her name, address, date of birth, Social Security Number, and driver's license number, as well as two personal references. If the borrower previously borrowed from a particular agency or the agency

NEW

MPN Citations

This discussion incorporates guidance that has been issued in several forms over the last year.

For general information about the MPN requirement for Stafford Loans — see 34 CFR 682.401(d) and definition of "Master Promissory Note" in 34 CFR 685.102; Dear Colleague GEN-98-25

Eligibility for multi-year feature — see 34 CFR 682.401(d) for FFEL and 34 CFR 685.402(f) for DL See also Dear Partner letter GEN 00-03 and Direct Loan Bulletins DLB 00-05 and 00-11.

Declining the Multi-Year Feature

Direct Loan schools that do not want to use the multi-year feature for ANY of their students should write on official school letterhead to:

U.S. Department of Education
Student Financial Assistance
Direct Loan Operations/Schools Channel
400 Maryland Avenue, SW
ROB – 3, Room 5036
Washington, DC 20202-5162

See Direct Loan Bulletin DLB 00-20

NEW

uses electronic loan processing, some of this information may be preprinted on the MPN. The borrower must read and sign the MPN.

In completing the FFEL MPN, the borrower must provide the name of a lender and may provide his or her preferred lender, a choice given to the borrower by law. Often, the school will make available to the student a list of lenders who have commonly made student loans at that school. If the borrower can't find a lender willing to make a FFEL loan, he or she should contact the guaranty agency that serves his or her state of residence for assistance in finding a lender of last resort (LLR). See **Chapter Two** for more information about the lender of last resort.

Multi-year use of the MPN

Under the multi-year feature many students will be able to obtain additional loans without having to sign a new MPN for each academic year (in Direct Loans) or period of enrollment (in FFEL). Thus, multi-year use of the MPN has been targeted first to those student populations most likely to borrow multiple times.

For the academic year 2000-2001, the multi-year feature of the MPN is available to most four-year and graduate/professional schools. To be eligible to use the multi-year function of the MPN in 2000-2001, a school must:

- offer as its highest program either a master's degree, doctor's degree, first professional degree, professional certification, or bachelor's degree, as shown on the school's Eligibility and Certification Approval Report (ECAR, page A-2);

- not be subject to an emergency action or a proposed or final limitation, suspension or termination action;

- be located in the United States.

Multi-year use of the MPN requires significant changes to the systems and procedures used by lenders, schools, servicers, and the Department in processing student loans. It also requires increased efforts by all parties to ensure that borrowers understand their obligations and rights under the MPN.

Circumstances where a new MPN is required

Single-Year MPN. Student loan borrowers attending schools not authorized to use the multi-year feature of the MPN generally are required to complete a new MPN for each loan they receive. Note: A new MPN is *not* required if the new loan is made within the same academic year (in Direct Loans) or within the same period of enrollment (in FFEL). For example, if a student requests a higher loan amount later in the semester or moves up a grade level and qualifies for an additional loan amount at mid-year, the additional amount should be treated as a loan adjustment under the existing MPN.

New Feature: Master Promissory Note

The Master Promissory Note (MPN) is designed for use as both a single-year and as a multi-year note. MPNs, developed by the Department in cooperation with representatives of the student financial aid community were authorized in the Higher Education Amendments of 1998. MPNs were introduced for use in making student loans in both the FFEL and Direct Loan Programs for the 1999-2000 academic year. (See Dear Colleague Letter ANN-98-10.) Dear Colleague Letter GEN-98-25 provides detailed information about the use of the MPN in the FFEL Program, and most of the borrower and school requirements also apply to use of the MPN in the Direct Loan Program.

Beginning with the 1999-2000 academic year, the Direct Loan MPN replaced the promissory note used in the previous year for Direct Subsidized and Direct Unsubsidized Loans. Implementation of the MPN in the Direct Loan Program can be found in "Dear Colleague" Letter GEN-99-08 and Direct Loan Bulletin DLB–99-34. In addition the Department has prepared a pamphlet, *The Inside Scoop for Borrowers: The Master Promissory Note for Direct Loan Borrowers*, to help DL schools explain the MPN process to students. Aid administrators at DL schools can order the pamphlet by calling their customer service rep at the LOC or faxing an order form to 1-800-557-7396.

For the 1999-2000 academic year, FFEL Program schools could use either the FFEL MPN or the Common Stafford Application/Promissory Notes for Federal Stafford loans. However, beginning with the 2000-2001 academic year, FFEL schools must use MPNs for Federal Stafford loans for loan periods beginning on or after July 1, 2000 and for any loan certified on or after July 1, 2000, regardless of the loan period.

While implementation of multi-year use of the MPN will differ slightly between the Direct Loan Program and the FFEL Program, the basic features of the note are the same for both loan programs. The MPN is more streamlined and borrower-friendly than the old note. The borrower information section, to be completed by the borrower, and all borrower certifications and authorizations are on the front of the form. FFEL schools complete a separate Federal Stafford Loan School Certification Form or submit the school's certification electronically. Copies of the MPNs for both programs and the FFEL certification form are included at the end of this chapter.

Schools are not required to use the multi-year feature and may choose not to use it for all or some of their students. Schools authorized to use the multi-year feature of the MPN have the option to require that some or all of their students sign a new MPN each year. FFEL schools wishing to exercise this option should notify their lenders; Direct Loan schools that want to have some students sign a new MPN should see the *Direct Loan School Guide* for more information about this process.

Student loan borrowers have the option to decline the multi-year feature of the MPN. Borrowers may also choose to cancel authorization for subsequent loans to be made under an MPN, after the first loan is made. The cancellation request must be made in writing. FFEL borrowers should send their written notice to the lender. Direct Loan borrowers may send their written notification to the Direct Loan Servicing Center (DLSC) or to their school for forwarding to the Loan Origination Center (LOC). The effective date is the date the school, lender, LOC, or DLSC receives the written cancellation request. If the borrower cancels the multi-year authorization on a loan that has not been completely disbursed, the school may make remaining disbursements on existing loans, unless the borrower tells the school to cancel/adjust the disbursements. To obtain additional loans the borrower will complete a new MPN.

NEW

Multi-Year MPN. There are several circumstances that would require a borrower to complete a new MPN, even if he/she has been receiving multiple loans under a single MPN. A new MPN is required if the student's lender (for an FFEL) changes, unless the lender changes as a result of a merger or acquisition. A new MPN is also required in certain transfer situations where:

- The student transfers to a school either not eligible to use or choosing not to use the multi-year feature of the MPN.

- The student transfers from a school that participates in the FFEL Program to a Direct Loan school, or vice versa, because there is a change in lender. (Similarly, new MPNs would be required if the school itself changes from DL to FFEL or vice versa.)

In some cases, a new MPN will have to be executed because the multi-year feature on the old MPN has expired. At Direct Loan Program schools, loans for multiple academic years may no longer be made under an MPN after the earliest of:

- One year after the date of the borrower's first anticipated disbursement if no disbursement is made during that 12-month period; or

- Ten years from the date of the first anticipated disbursement. If a portion of a loan is made on or before the 10-year limit, remaining disbursements of that loan can be made.

At FFEL Program schools, the multi-year feature expires:

- Twelve months after the date the borrower signed the MPN, if no disbursements were ever made under that MPN; or

- Ten years from the date the student signed the MPN or the lender received the MPN. If a portion of a loan is made on or before the ten-year limit on the signature date, remaining disbursements of that loan can be made.

Borrower confirmation for subsequent loans

A crucial step in multi-year use of the MPN is the confirmation process, which takes the place of the previous requirement that the borrower sign a new note for each academic year (in Direct Loans) or period of enrollment (in FFEL). Schools must develop and document a confirmation process to ensure that the borrower wants subsequent loans. FFEL schools must work with the lender. The confirmation process may be part of the required notices and disclosures that already exist, or it may be separate and supplement them.

To ensure student control over the borrowing process, a student must accept, either actively or passively (i.e., through notification), the loan amount offered.

- **Active confirmation** —School does not disburse the loan until the borrower accepts the proposed loan type and amount or requests changes to the proposed loan package.

- **Passive confirmation** — School does not disburse the loan until the borrower is notified of the proposed loan package. (The notification can come from the school, lender, and/or guarantor.) The borrower only needs to take action if he or she wants to decline the loan or make adjustments to the type or amount of the loan.

For example, your school's award letter may include proposed loan amounts and types. For active confirmation, the student would be asked to confirm the aid offered by responding to your school's offer. For passive confirmation, the student would be asked to respond only if he or she wanted to cancel or reduce the loan amount offered.

School Responsibilities
Certifying an FFEL:
see 34 CFR 682.603
Originating a Direct Loan:
see 34 CFR 685.301

SCHOOL CERTIFIES/ORIGINATES THE LOAN

Along with the Master Promissory Note (MPN) or PLUS application/promissory note, a school must provide a loan certification to the lender. In Direct Loans, this information is part of the loan origination record sent electronically to Loan Origination Center. An FFEL school may submit the certification either electronically or by means of the new paper Federal Stafford Loan School Certification form.

You must certify that the student is an eligible borrower (see Chapter 2 of this volume for eligibility rules). The school's certification also includes the student's grade level, loan period and the amounts of the disbursement (using the rules described in Chapter 3), as well as the student's enrollment status and anticipated completion/graduation date.

If your school is eligible to use the multi-year feature of the MPN, you must provide this certification for each loan made under the MPN.

Certifying eligibility

The school is expected to confirm the student's dependency status and Social Security Number. For a student who previously attended another college, you may certify the loan before checking the student's financial aid history on NSLDS. Or you may choose to wait until the time of disbursement to check. (See Chapter 2 for more information on using NSLDS to obtain a financial aid history.) In the case of a PLUS Loan, you must not certify the application until the school obtains the student's complete financial aid history.

Schools are no longer required to provide need analysis information to the lender, though you must determine the student's cost of attendance, Expected Family Contribution, and estimated financial assistance and document this information in the student's

ESTABLISHING A CONFIRMATION PROCESS FOR YOUR STUDENTS

As long as regulatory requirements and the Department's guidelines are met, schools, lenders, and guarantors are free to establish their own confirmation process — perhaps even a process that combines elements of active and passive confirmation and/or a shared responsibility among the school, lender, and/or guarantor. Schools and the lending community have considerable discretion in setting up these processes, including the timing of confirmation.

For example, confirmation could take place when students apply for aid, when aid is packaged, when loan funds are delivered or disbursed, or at some other appropriate time. The confirmation process could cover the entire loan or, instead, could require that the student confirm each loan disbursement. GEN-98-25 provides examples of each of these confirmation approaches.

The most effective processes will likely vary among institutions, and as implementation of the MPN proceeds, participants are encouraged to use and test various technologies in this process. Some technologies suggested include the Internet, e-mail, card technologies, and voice response.

Generally, schools (in both the Direct Loan and FFEL programs) should use the same confirmation process(es) for all borrowers. However, in some cases a school may want to establish more than one confirmation process in order to accommodate existing administrative procedures, or because the school believes that it can best inform borrowers of their loan obligations if it uses different confirmation processes for different groups of students.

For example, if a school has a policy that requires undergraduates (but not graduate students) to participate in individual counseling sessions before they receive financial aid, it would be reasonable to use the individual counseling sessions to meet the confirmation requirement for undergraduate borrowers, and to establish a different confirmation process for graduate student borrowers.

Regardless of the process(es) used, schools (and the lender in the FFEL Program) must document their confirmation procedures. A school must retain a description of the process(es) in effect for each academic year in which it makes second or subsequent loans under MPNs. The documentation of the process may be kept in paper or electronic format and need not be kept in individual borrower files. The documentation must be kept indefinitely, because it must be submitted to the Department upon request if a borrower challenges the enforceability of a loan.

We recommend that schools include a description of the confirmation process in their student consumer information just as they do for the refund and academic progress policies.

file. This information must be made available to the lender, guarantor, or the Department upon request.

You may not certify a loan for more than the least of the following amounts:

- the amount the borrower requests;
- the student's unmet financial need (in the case of a subsidized loan);
- the student's COA; and
- the borrower's maximum borrowing limit (as discussed in Chapter 3).

If a subsidized Stafford Loan applicant has been selected for verification, you may wait until verification has been completed to certify the Stafford Loan application, or you may certify the application if there is no information which conflicts with that provided by the applicant. If you choose to certify the application without waiting for verification, you may not credit the loan funds to the student's account or pay the student directly until verification has been completed.

A financial aid administrator may refuse to certify an otherwise eligible FFEL borrower's loan application if the reason for the refusal is documented and provided in writing to the student. Similarly, the financial aid administrator may certify a loan for an amount less than that for which the student would otherwise be eligible if reasons for doing so are documented and explained to the student in writing.

A financial aid administrator should be aware of the responsibility incurred in certifying a loan. **The school, not the lender, determines the student's or parent's eligibility for a Stafford or PLUS Loan**. (An eligible foreign school is also responsible for determining eligibility, although such a school generally contracts with a guaranty agency or a consultant for assistance.) If a financial aid administrator certifies a loan for an ineligible student, the school will be responsible for purchasing the loan and for reimbursing the Department for all interest and special allowance paid on behalf of the borrower.

Certification Options During Verification

If you have reason to believe that the information included on the FAFSA is inaccurate, you may not certify, originate, or disburse a Stafford Loan for the student until he or she verifies or corrects the information.

If you have no reason to believe that the information included on an application is inaccurate prior to verification, you have the option of certifying or originating a Stafford Loan, but the loan funds may not be disbursed until verification has been completed.

(34 CFR 668.58 Interim disbursements)

Multiple Disbursements Requirement
See 34 CFR 682.207(c-e) and 34 CFR 682.301(b)

Foreign Study Exception to Multiple Disbursement Requirement
You may pay an eligible student in a study abroad program in one disbursement, if your school's most recently calculated FFEL or DL default rate is less than 5% for the single most recent fiscal year for which data is available.

Number of disbursements to the borrower

In most cases, the Stafford and PLUS loan funds must be disbursed in at least two installments with no installment exceeding one-half the loan amount.

If the program uses **standard academic terms** (for example, semester, trimester, or quarter) and measures progress in credit hours, disbursements are made as follows:

- *If there is more than one term,* the loan must be disbursed over all terms of the loan period. For example, if a loan period includes all three quarters of an academic year, the loan must be disbursed in three substantially equal payments. If the **remaining portion of the program** is less than a full academic year, the loan must be disbursed in equal amounts at the beginning of the remaining portion and at the portion's calendar midpoint.

- *If there is only one term,* the loan must be disbursed in equal amounts at the beginning of the term and at the term's calendar midpoint.

If the program measures progress in **clock hours or in credit hours without using standard terms,** disbursements are made as follows:

- *If the program is one academic year or shorter,* the loan is disbursed in equal amounts at the beginning of the program and at the program's calendar midpoint.

- *If the program is longer than an academic year,* and the **remaining portion of the program** is less than a full academic year, the loan must be disbursed in equal amounts at the beginning of the remaining portion and at the portion's calendar midpoint.

For clock hour and credit hour nonterm programs, bear in mind that the second disbursement may not be made until the student has **successfully** completed the academic coursework for the portion of the program covered by the prior disbursement.

Exceptions to the multiple disbursement requirement

There are three significant exceptions to this multiple disbursement requirement:

- If any payment period has elapsed before a lender makes a disbursement, a single disbursement may be made for all completed payment periods.

- If the period of enrollment is not more than one quarter, one semester, one trimester, or four months (for programs with nonstandard terms or without terms), the Stafford Loan can be made in one disbursement if your school's three most recent calculated FFEL or DL default rates were less than 10%. (For loans disbursed on or after October 1, 1998.)

School Checklist For Loan Certification

For a subsidized Stafford Loan, the school must:

- use an official EFC calculated by the Department to determine the student's financial need.

For a Stafford Loan, the school must:

- determine the student's Pell Grant eligibility, and if eligible, include the grant in the student's aid package,
- for an unsubsidized Stafford loan, first determine the student's eligibility for a subsidized Stafford loan,
- ensure that the loan disbursement schedule provided to the applicant with the MPN meets the disbursement requirements for Stafford Loans, and
- prorate Stafford Loans for programs of study that are shorter than an academic year and for programs in which the remaining period of study is less than an academic year in length.

For a Stafford Loan or PLUS Loan application, the school must:

- determine the student's enrollment status, and satisfactory academic progress,
- ensure that the student (or both the student and parent in the case of a PLUS Loan) has certified that he or she is not in default on any SFA loan and does not owe a refund on any SFA grant or scholarship,*
- review NSLDS to ensure that the loan(s) will not exceed the annual or aggregate loan limits applicable to the borrower,
- also ensure that the amount of the loan, in combination with other aid, will not exceed the student's financial need.

* The borrower may still be eligible if he/she has made satisfactory arrangements to repay the grant/loan.

Foreign Study Exception to Delayed Disbursement Requirement

A loan disbursement can be made to a first-time, first-year borrower within the normal time frame (without waiting 30 days) if the borrower is attending an eligible foreign school, or if the borrower is in a study-abroad program and the home school in the U.S. had an FFEL or DL default rate less than 5% (in the most recent fiscal year for which a rate was calculated).

Timing of disbursements to the borrower

The time frame for paying the borrower is closely related to the start of classes for the academic term, or the completion of the academic work for the prior payment period (for a clock hour or credit hour nonterm program). The earliest that a school may use SFA funds to credit the student's account or to pay a student or parent is 10 days before the first day of classes for that payment period. (See Volume 2, Chapter 5 of the *SFA Handbook*, and 34 CFR 668.164(f))

If your school had a default rate of 10% or greater in any of the last three years for which a rate was calculated, you may not pay Stafford loan funds to first-time, first-year undergraduate students until 30 days after the first day of the student's program. (This limitation does not apply to PLUS loans.)

Subsequent payments of the loan may have to be delayed at a clock hour or nonterm school if the student has not completed the academic work for the prior payment period. The FFEL and DL regulations give a more specific explanation for the loan programs (see 34 CFR 682.604(c) and 685.301(b)):

- *For a nonterm credit hour program,* you may not make the second disbursement until the calendar midpoint between the first and last days of the loan period, and only if the student has completed half of the academic coursework in the loan period.

- *For a clock hour program,* you may not make the second disbursement until the calendar midpoint between the first and last days of the loan period, and only after the student has completed half of the clock hours in the loan period.

- *If the loan period is one payment period,* you must make two payments to the borrower, and may not make the second payment until the calendar midpoint between the first and last days of the loan period.

Timing the delivery of funds from an FFEL lender

Once you have established the anticipated date of the disbursements to the student, you can specify to the lender the dates on which you need to receive the loan funds. You may set an earlier "disbursement date" for the lender as part of the school certification of the loan, so that you receive the loan funds in advance of the date that you expect to pay the student. (In the certification process, the term "disbursement" usually refers to the transfer of funds from the lender to the school, rather than the payment to the student.)

However, you shouldn't request funds transfer too far in advance of the point where you may pay the borrower, because you must credit the student's account or pay the student or borrower within the time-limits set by the Cash Management regulations. To observe the standard 3-day turnaround time for payment of SFA funds to the student, the Cash Management regulations stipulate that a school cannot ask the lender to provide the Stafford or PLUS loan funds any sooner than 3 days before the earliest date that the school is allowed to pay the funds to the student. (See CFR 668.167(a))

If the lender transfers funds to your school by **EFT or master check**, you may not request that the lender provide the loan funds any sooner than the 13th day before the first day of classes of the payment period. As noted above, some schools are required to wait 30 days after the first day of classes before disbursing FFEL/DL funds to first-year, first-time borrowers. If the loan is subject to the 30-day delayed disbursement requirement, you may not request that the lender provide Stafford Loan funds any sooner than the 27th day after the first day of classes of the first payment period.

In the case of a lender that transfers funds to a school by **check** requiring the endorsement of the borrower you may not request lender disbursement of the borrower's loan proceeds until the 30th day before the first day of classes for a payment period. If the loan payment is subject to the 30-day delayed disbursement requirement for a first-time, first-year borrower, you may not request that the lender provide the Stafford Loan funds any sooner than the first day of classes of the first payment period.

Submission of Origination Record and drawdown of funds (Direct Loans)

Direct Loans are originated by schools. The origination process includes the elements of the school's certification of a loan in FFEL—in particular, the determination of the number of disbursements and the amounts to be disbursed. Depending upon the school's level of origination, the remaining parts of the loan process are handled either by the school or by the Loan Origination Center (LOC). The *Direct Loan School Guide* (Chapter 7) contains detailed instructions about the procedures for drawing down funds in the Direct Loan Program, so that information will not be duplicated here. We'll discuss loan disbursement procedures in Chapter 6.

Lender/guarantor approval (FFEL only)

The lender or guarantor will match the information included by the school on the certification (electronic or paper) to the MPN by comparing the student's identifying information. The lender or guarantor should check the permanent address information on the MPN to see if it has changed. The school must supply the student's COA, EFC and EFA to the lender or guarantor upon request.

The lender will also check to make sure that the school is eligible to use the multi-year feature of the MPN. If the student transfers to a school that is not eligible to participate in the multi-year process and continues to use the same lender, the lender is responsible for obtaining a new signed MPN for loans at the new school.

Blanket Agreements for Guaranty Approval

See Section 428(n) of the Higher Education Act of 1965, as amended

A lender may elect not to make a subsequent loan under an existing MPN or require a new MPN from a borrower even though the borrower remains enrolled at a school authorized to use the multi-year process.

A lender is prohibited from discriminating against an applicant on the basis of race, national origin, religion, sex, marital status, age, or disabled status. However, a lender may decline to make loans to students who do not meet the lender's credit standards or to students at a particular school because of the school's default rate, or to students enrolled in a particular program of study. A lender may decline to make FFELs for less than a specified amount; for example, a lender could refuse to make a loan for less than $500.

A lender must receive guaranty agency approval for an FFEL in order for the lender to disburse the loan and, if applicable, be eligible for payment of federal interest benefits. Under the 1998 Amendments, a guaranty agency may offer eligible lenders participating in the agency's guaranty program a blanket guaranty that permits the lender to make loans without receiving prior approval from the guaranty agency for individual loans.

Once guaranty agency approval is obtained, the lender will send Stafford loan funds to your school in the appropriate amount for each disbursement to the student; or the lender will send the funds directly to the student if he or she is enrolled in a foreign school. For a PLUS, loan funds are sent in at least two disbursements to the school by EFT or by a check made copayable to the school and the parent borrower. We'll discuss loan disbursement procedures in Chapter 6.

Sample Copies of DL and FFEL Master Promissory Note, and Loan Certification Form follow in the print version (10 pages)

Overview of the MPN Process

The process for completing the MPN for a Stafford Loan and making the initial loan includes the following elements, though the process may be a bit different for the FFEL and Direct Loan Programs and some school procedures may be in a slightly different order.

Student Applies for Aid. The student fills out the FAFSA (or a renewal FAFSA).

School Determines Eligibility and Loan Amount. The school confirms the student's eligibility for federal student loans, determines the loan period and loan amount, and packages the loan(s) requested.

* **Student Completes the MPN.** The student completes the MPN for the initial loan. The Borrower's Rights and Responsibilities Statement must be given to the borrower with the MPN.

Certification/Origination. For FFEL loans, the school certifies the student's loan eligibility and notifies the lender or guaranty agency. For Direct Loans, the school originates the loan.

⇛ In the FFEL Program, the loan is approved by the lender or guaranty agency.

⇛ In the Direct Loan Program, the school submits an origination record to the LOC and receives an acknowledgment from the LOC.

Disclosure. Either before or at the time of the first disbursement, the borrower must be given a disclosure statement with specific information about the type(s) of loans the borrower is getting, anticipated disbursement amount(s), anticipated disbursement date(s), and instructions on how to cancel the loan(s). (The disclosure is often provided by the lender or the Direct Loan Origination Center.)

Payment to the Borrower. The school (after ensuring that the borrower is still eligible) disburses loan proceeds to the student's account or directly to the borrower.

* **Making Subsequent Loans.** If the school can use the multi-year feature, a new MPN is not required for subsequent loans. However, the school must use an active or passive confirmation process for subsequent loans, and the borrower must receive a Plain Language Disclosure, at or prior to the disbursement of any subsequent loans provided under an existing MPN. (The Plain Language Disclosure is usually sent to the borrower by the lender or the Direct Loan Origination Center.) If the multi-year feature is not in place, the borrower completes a new MPN for subsequent loans.

Direct Loans

William D. Ford Federal Direct Loan Program

Master Promissory Note
William D. Ford Federal Direct Loan Program

WARNING: Any person who knowingly makes a false statement or misrepresentation on this form shall be subject to penalties which may include fines, imprisonment, or both, under the U.S. Criminal Code and 20 U.S.C. 1097.

OBM No. 1845-0007
Form Approved
Exp. Date 08/31/2002

Federal Direct Stafford/Ford Loan
Federal Direct Unsubsidized Stafford/Ford Loan

1. **Driver's License State and Number**
2. **Social Security No.**
3. **E-mail address**
4. **Name and Address (street, city, state, zip code)**

← Last, First, M.I.

5. **Date of Birth**
6. **Area Code/Telephone No.**

7. **References:** You must list two persons with different U.S. addresses who have known you for at least three years. The first reference should be a parent or legal guardian.

	1.	2.
Name	______________________	______________________
Permanent Address	______________________	______________________
City, State, Zip Code	______________________	______________________
Area Code/Telephone Number	( ) __________________	( ) __________________
Relationship to Borrower	______________________	______________________

8. **Requested Loan Amount:** I request a total amount of subsidized and unsubsidized loans under this Master Promissory Note not to exceed the allowable maximums under the Higher Education Act. My school will notify me of type(s) and amount(s) of loan(s) that I am eligible to receive. I may decline a loan or request a lower amount by contacting my school. Additional information about my right to cancel or reduce my loan is included in the Borrower's Rights and Responsibilities statement and Disclosure Statements that have been or will be provided to me.

9. **School Name and Address**
10. **School Code/Branch**
11. **Identification No.**

Borrower Certifications and Authorizations — ***Read carefully before signing below.***

12. I declare under penalty of perjury that the following is true and correct:

- I certify that the information I have provided on this Master Promissory Note and as updated by me from time to time is true, complete, and correct to the best of my knowledge and belief and is made in good faith.
- I certify that I will immediately repay any loan proceeds that cannot be attributed to educational expenses for attendance on at least a half-time basis at the school that certified my loan eligibility.
- I certify that I do not now owe a refund on a Federal Pell Grant, Supplemental Educational Opportunity Grant, or a State Student Incentive Grant and that I am not now in default on any loan received under the Federal Perkins Loan Program (including NDSL loans), the Federal Direct Loan Program (Direct Loans), or the Federal Family Education Loan Program (FFELP) or, I have made satisfactory repayment arrangements on the defaulted loan.

13. For all Direct Subsidized and Direct Unsubsidized Loans (as described in the additional Note provisions and the Borrower's Rights and Responsibilities statement) I receive under this Master Promissory Note, and for certain other loans as described below, I make the following authorizations:

- I authorize my school to certify my eligibility for loans under this Master Promissory Note.
- I authorize my school to credit my loan proceeds to my student account.
- I authorize my school to pay to the U.S. Department of Education (ED) any refund that may be due up to the full amount of the loans.
- I authorize ED to investigate my credit record and report information concerning my loan status to persons and organizations permitted by law to receive such information.
- Unless I notify ED differently, I request and authorize ED to: (i) during the in-school and grace periods of any loans made under this Note, defer and align the repayment of principal on all of my Direct Loans that are in repayment status; and (ii) add interest which I must pay that accrues on all my Direct Loans to the principal balance of such loans ("capitalization") including such loans made under this Note during periods of forbearance and, for unsubsidized loans, during in-school, grace, and deferment periods, as provided under the Act. "Capitalization" will increase the principal balance on my loans and the total amount of interest cost I incur.
- I authorize the release of information pertinent to my loans: (i) by the school and ED, to the references on the applicable loans and to members of my immediate family unless I submit written directions otherwise; and, (ii) by and among my schools, lenders, guarantors, the U.S. Department of Education, and their agents.

Promise to Pay

14. I promise to pay to the U.S. Department of Education all sums disbursed (hereafter "loan" or "loans") under the terms of this Master Promissory Note (hereafter "Note"), plus interest and other charges and fees that may become due as provided in this Note. **I understand that multiple loans may be made to me under this Note.** I understand that by accepting any disbursements issued at any time under this Note, I accept the obligation to repay the loans. I understand I may cancel or reduce the amount of any loan by refusing to accept or by returning all or a portion of any disbursement that is issued. I may pay interest that accrues on my Federal Direct Unsubsidized Stafford/Ford Loans during in-school, grace, and deferment periods, or may allow it to accumulate and be added to the principal balance of such loans. If I fail to make any payment on any loan made under this Note when due, I will also pay reasonable collection costs, including but not limited to attorney's fees, court costs, and other fees. I will not sign this Note before reading it, including the writing on the reverse side, even if otherwise advised. I am entitled to an exact copy of this Note and the Borrower's Rights and Responsibilities statement. My signature certifies I have read, understand, and agree to the terms and conditions of this Note, including the Borrower Certifications and Authorizations printed above, the Notice on the reverse side, and the accompanying Borrower's Rights and Responsibilities statement.

I UNDERSTAND THAT I MAY RECEIVE ONE OR MORE LOANS UNDER THIS MASTER PROMISSORY NOTE, AND THAT I MUST REPAY SUCH LOAN(S).

15. Borrower's Signature ______________________ **16. Today's Date *(Month/Day/Year)*** __________

Additional Note Provisions follow

Master Promissory Note (continued)

DISCLOSURE OF LOAN TERMS

This Note applies to both Federal Direct Stafford/Ford Loans (Direct Subsidized Loans) and Federal Direct Unsubsidized Stafford/Ford Loans (Direct Unsubsidized Loans) described in the Interest section below. I agree that each loan is separately enforceable based on a true and exact copy of this Note. Loans disbursed under this note are subject to the annual and aggregate loan limits specified in the Higher Education Act of 1965, as amended, 20 U.S.C. 1070, et seq., and applicable U.S. Department of Education (ED) regulations (collectively referred to as the "Act").

Under this Note, the principal amount that I owe, and am required to repay, will be the sum of all disbursements issued (unless I reduce or cancel any disbursements as provided below).

At or before the time of the first disbursement for each loan, a disclosure statement will be issued to me identifying the amount of the loan and additional terms of the loan. Important additional information is also disclosed in the Borrower's Rights and Responsibilities statement accompanying this Note. The Borrower's Rights and Responsibilities statement and any disclosure statement I receive in connection with any loan under this Note are hereby incorporated into this Note.

I may request additional loan funds for my educational costs (up to the annual and aggregate loan limits) from my school. If my school determines that I am eligible for any additional or adjusted loan amount my school may certify such amount.

My eligibility for Direct Subsidized Loans and Direct Unsubsidized Loans may change based on changes in my financial circumstances. My school will notify me of any changes in my eligibility. I will be notified of changes or additions to my Direct Subsidized Loans and Direct Unsubsidized Loans in a separate disclosure statement.

LOAN CANCELLATION

I may pay back all or a portion of a disbursement within time frames set by the Act and identified in the Borrower's Rights and Responsibilities statement or other disclosure statement I receive at or before disbursement. In such case, the loan fee will be reduced or eliminated in proportion to the amount of the disbursement returned. I will not incur interest charges if I return the full loan amount as provided in the Act.

INTEREST

Unless ED notifies me in writing of a lower rate(s), the rate(s) of interest for my loans are those specified in the Act. The rate is presented in the Borrower's Rights and Responsibilities statement accompanying this Note or in another disclosure that is issued to me.

Interest accrues on the unpaid principal balance of each loan from the date of disbursement until the loan is paid in full. I agree to pay all interest charges on my Direct Subsidized Loans. I agree to pay all interest charges on my Direct Unsubsidized Loans. If I fail to make required payments of interest before the beginning or resumption of principal repayment, or during a period of deferment or forbearance, I agree that ED may capitalize such interest, as provided under the Act. There is no federal interest subsidy on unsubsidized loans, so the total amount of interest I am required to repay on unsubsidized loans will be higher than on subsidized loans.

LOAN FEE

A loan fee is charged for each Direct Subsidized Loan and Direct Unsubsidized Loan equal to the amount required by the Act. I will pay such fee as identified in the disclosure statement, which will be deducted proportionately from each disbursement of my loans. I understand the loan fees may be refundable only to the extent permitted by the Act.

LATE CHARGES AND COLLECTION COSTS

ED may collect from me: (i) a late charge for each late installment payment if I fail to make any part of a required installment payment within 30 days after it becomes due, and (ii) any other charges and fees that are permitted by the Act for the collection of my loans. If I default on any loans, I shall pay reasonable collection fees and costs, plus court costs and attorney fees.

REPAYMENT

I am obligated to repay the full amount of the loans made under this Note and accrued interest. Direct Subsidized and Unsubsidized Loans have a repayment grace period of 6 months. I will repay the principal of my loans in periodic installments during repayment periods that begin on the day immediately following the end of the applicable grace period. Payments submitted by me or on my behalf (exclusive of refunds) will be applied first to charges and collection costs that are due, then to accrued interest that has not been capitalized, and finally to the principal amount. I understand that the School's certification of my loan eligibility determines whether my loans must be repaid as subsidized and/or unsubsidized Direct Loans.

The Direct Loan Servicing Center will provide me with a repayment schedule that identifies my payment amounts and due dates. **Direct Loan repayment information is covered in the Borrower's Rights and Responsibilities statement.**

If I am unable to make my scheduled loan payments, ED may allow me to reduce my payment amount, to extend the time for making payments, or to temporarily stop making payments as long as I intend to repay my loan. Allowing me to temporarily delay or reduce loan payments is called forbearance.

I agree that ED may align payment dates on my loans or may grant me forbearance to eliminate a delinquency that persists even though I am making scheduled installment payments.

I may prepay all or any part of the unpaid balance on my loans at any time without penalty. If I do not specify which loans I am prepaying, ED will determine how to apply the prepayment in accordance with the Act. Upon repayment in full of each loan under this Note, I agree to accept written notification of such loan payoff in place of receiving the original Note.

ACCELERATION AND DEFAULT

At the option of ED, the entire unpaid balance of the applicable loans shall become immediately due and payable upon the occurrence of any one of the following events: (i) I fail to enroll as at least a half-time student at the School that certified my loan eligibility, (ii) I fail to use the proceeds of the loans solely for educational expenses, (iii) I make a false representation(s) that results in my receiving any loans for which I am not eligible, or (iv) I default on the loans.

The following events shall constitute a default on my loans: (i) I fail to pay the entire unpaid balance of the applicable loans after ED has exercised its option under items (i), (ii), and (iii) in the preceding paragraph; (ii) I fail to make installment payments when due, provided my failure has persisted for at least 270 days; or (iii) I fail to comply with other terms of the loans, and ED reasonably concludes I no longer intend to honor my repayment obligation. If I default, ED may capitalize all the outstanding interest into a new principal balance, and collection fees will become immediately due and payable.

If I default, the default will be reported to all national credit bureau organizations and will significantly and adversely affect my credit history. I acknowledge that a default shall have additional adverse consequences to me as disclosed in the Borrower's Rights and Responsibilities statement. Following default, the loans may be subject to income-contingent repayment (including potential collection of amounts in excess of the principal and interest) in accordance with the Act.

GOVERNING LAW AND NOTICES

The terms of this Note will be interpreted in accordance with the Higher Education Act of 1965, as amended (20 U.S.C. 1070 et seq.), and other applicable federal statutes and regulations.

Any notice required to be given to me will be effective if mailed by first class mail to the latest address ED has for me. I will immediately notify ED of a change of address or status as specified in the Borrower's Rights and Responsibilities statement.

Failure by ED to enforce or insist on compliance with any term on this Note shall not be a waiver of any right of ED. No provision of this Note may be modified or waived except in writing. If any provision of this Note is determined to be unenforceable, the remaining provisions shall remain in force.

Notice: Applicable to Loans Received After the Initial Enrollment Period

This Master Promissory Note authorizes ED to disburse multiple loans during the multi-year term of this Note upon my request and upon the school's certification of my loan eligibility.

Subsequent loans may be made under this Note for subsequent periods of enrollment only at four-year or graduate schools, or other schools, as designated by the Secretary of the U.S. Department of Education. I agree that no subsequent loans will be made under this Note after the earliest of the following dates: (i) the date ED receives my written notice that no further loans may be disbursed under the Note; (ii) one year after the date of my first anticipated disbursement on this Note if no disbursement is made during such twelve month period; or (iii) ten years after the date of the first anticipated disbursement made under this Note.

Any amendment to the act governs the terms of any loans disbursed on or after the effective date of such amendment, and such amended terms are hereby incorporated into this Master Promissory Note.

Direct Loans
William D. Ford Federal Direct Loan Program

Master Promissory Note
William D. Ford Federal Direct Loan Program
Instructions and Notices

OBM No. 1845-0007
Form Approved
Exp. Date 08/31/2002

Federal Direct Stafford/Ford Loan
Federal Direct Unsubsidized Stafford/Ford Loan

Instructions for Completing Promissory Note

This is a Master Promissory Note under which you may receive multiple Direct Subsidized Loans and Direct Unsubsidized Loans over a maximum ten year period.

Section A: To Be Completed By The Borrower

Use blue or black ink ball point pen or typewriter. Do not complete this form in pencil.

Section A must be completed by the student who is applying to be a borrower of a Federal Direct Stafford/Ford Loan (Direct Subsidized Loan) and/or a Federal Direct Unsubsidized Stafford/Ford Loan (Direct Unsubsidized Loan). Items 1 and 2 and Items 4 through 6 may have been preprinted on the Promissory Note by the school certifying your loan, if you provided this information on your Free Application for Federal Student Aid (FAFSA). You should review all the questions and responses and enter information for any items that are not preprinted. Cross out any incorrect information and print the correct information. Incorrect or incomplete information may cause your loan to be delayed.

All references to "you" mean the student borrower.

Item 1: Enter the two-letter abbreviation for the sate that issued your current driver's license followed by the driver's license number. If you do not have a current driver's license, enter the letters "N/A."

Item 2: Enter your nine-digit Social Security Number. If this item has been completed for you, review it for correctness. If it is incorrect, cross out the entire incorrect number and print the entire correct Social Security Number in this box. Your loan(s) cannot be processed without your Social Security Number. Read the Privacy Act and the Financial Privacy Act Notices below before completing this item.

Item 3: Enter your e-mail address if you have one.

Item 4: Enter your last name, then your first name and middle initial. Enter your permanent street address, apartment number, city, state, and zip code.

Item 5: Enter the month, day, and four-digit year of your birth. Use only numbers. Be careful not to enter the current year.

Item 6: Enter the area code and telephone number for the address listed in Item 1. If you do not have a telephone, enter "N/A."

Item 7: Enter the requested reference information for two adults who do not share a common address. The first reference should be a parent or legal guardian. References with addresses outside the United States are not acceptable. Provide relationship of references to you.

Item 8: Your school will notify you of the amount of Direct Subsidized and Direct Unsubsidized Loans you are eligible to receive for this and subsequent academic periods. You may decline a loan or request a lower amount by contacting your school. Additional information is included under "Loan Cancellation" in the Borrower's Rights and Responsibilities statement.

Items 12, 13, and 14: Read these items carefully.

Items 15 and 16: After reviewing the terms of the Promissory Note, you must sign your full legal name, in blue or black ink, and enter the date you signed this Promissory Note.

By signing, you:

A) Acknowledge that you have read, understand, and agree to the provisions in the Master Promissory Note including the Borrower Certifications and Authorizations and the Borrower's Rights and Responsibilities statement.

B) Agree to repay the loan(s) in full according to the items and conditions in the Master Promissory Note.

Section B: To Be Completed By The School

These three items must be completed by the school.

Important Notices

Privacy Act Notice

The Privacy Act of 1974 (5 U.S.C. 552a) requires that the following notice be provided to you. The authority for collecting the information requested on this form is §451 et seq., of the Higher Education Act of 1965, as amended. Your disclosure of this information is voluntary. However, if you do not provide this information, you cannot be considered for a Direct Subsidized Loan and/or Direct Unsubsidized Loan made under the William D. Ford Federal Direct Loan (Direct Loan) Program. The principal purposes for collecting this information are to process your Direct Subsidized Loan and/or Direct Unsubsidized Loan, to document your agreement to repay this loan, and to identify and locate you if it is necessary to enforce this loan. The information in your file may be disclosed to third parties as authorized under routine uses in the Privacy Act notices called "Title IV Program Files" (originally published on April 12, 1994, Federal Register, Vol. 59, p. 17351) and "National Student Loan Data System" (originally published on December 20, 1994, Federal Register, Vol. 59, p. 65532). Thus, this information may be disclosed to federal and state agencies, private parties such as relatives, present and former employers and creditors, and contractors of the Department of Education for purposes of administration of the student financial assistance programs, for enforcement purposes, for litigation where such disclosure is compatible with the purposes for which the records were collected, for use by federal, state, local, or foreign agencies in connection with employment matters or the issuance of a license, grant, or other benefit, for use in any employee grievance or discipline proceeding in which the Federal Government is a party, for use in connection with audits or other investigations, for research purposes, for purposes of determining whether particular records are required to be disclosed under the Freedom of Information Act and to a Member of Congress in response to an inquiry from the congressional office made at your written request.

Because we request your social security number (SSN), we must inform you that we collect your SSN on a voluntary basis, but section 484(a)(4) of the HEA (20 U.S.C. 1091(a)(4)) provides that, in order to receive any grant, loan, or work assistance under Title IV of the HEA, a student must provide his or her SSN. Your SSN is used to verify your identity, and as an account number (identifier) throughout the life of your loan(s) so that data may be recorded accurately.

Financial Privacy Act Notice.

Under the Right to Financial Privacy Act of 1978 (12 U.S.C. 3401-3421), ED will have access to financial records in your student loan file maintained in compliance with the administration of the Direct Loan Program.

Paperwork Reduction Notice.

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a currently valid OMB control number. The valid OMB control number for this information collections is 1845-0007. The time required to complete this information collection is estimated to average 1.0 hour (60 minutes) per response, including the time to review instructions, search existing data resources, gather and maintain the data needed, and complete and review the information collection. **If you have any comments concerning the accuracy of the time estimate(s) or suggestions for improving the form, please write to:** U.S. Department of Education, Washington, DC 20202-4651. **If you have any comments or concerns regarding the status of *your individual submission* of this form, write directly to:**

School Relations
U.S. Department of Education
Loan Origination Center
P.O. Box 5692
Montgomery, Alabama 36103-5692

Federal Family Education Loan Program (FFELP)

Federal Stafford Loan Master Promissory Note

WARNING: Any person who knowingly makes a false statement or misrepresentation on this form is subject to penalties which may include fines or imprisonment under the United States Criminal Code and 20 U.S.C. 1097.

Guarantor, Program, or Lender Identification

OMB No. 1845-0006
Form approved
Exp. date 8-31-2002

Borrower Information

Please print neatly or type. Read the instructions carefully.

1. Last Name	First Name	MI	2. Social Security Number
3. Permanent Street Address (If P.O. Box, see instructions.)		4. Home Telephone Number ( )	5. Date of Birth (Month/Day/Year)
City	State / Zip Code	6. Driver's License State and Number State #	7. E-mail Address (Optional)
8. Lender Name	City	State / Zip Code	9. Lender Code, if known

10. References: You must provide two separate references with different U.S. addresses. The first reference should be a parent (if living) or legal guardian. Both references must be completed in full.

	A.	B.
Name		
Permanent Address		
City, State, Zip Code		
Area Code/Telephone	( )	( )
Relationship to Borrower		

11. Requested Loan Amount: I request a total amount of subsidized and unsubsidized loans under this Master Promissory Note not to exceed the allowable maximums under the Higher Education Act. My school will notify me of the type(s) and amount(s) of loan(s) that I am eligible to receive. I may decline a loan or request a lower amount by contacting my lender or school. Additional information about my right to cancel or reduce my loan is included in the Borrower's Rights and Responsibilities Statement and Disclosure Statements that have been or will be provided to me.

12. Interest Payments (Optional):

☐ I want to pay unsubsidized interest while I am in school.

Borrower Certifications and Authorizations

Read carefully before signing below.

13. I declare under penalty of perjury that the following is true and correct:

A. I certify that the information I have provided on this Master Promissory Note and as updated by me from time to time is true, complete, and correct to the best of my knowledge and belief and is made in good faith.

B. I certify that I will immediately repay any loan proceeds that cannot be attributed to educational expenses for attendance on at least a half-time basis at the school that certified my loan eligibility.

C. I certify that I do not now owe a refund on a Federal Pell Grant, Supplemental Educational Opportunity Grant, or a Leveraging Educational Assistance Partnership Grant (formerly State Student Incentive Grant) and that I am not now in default on any loan received under the Federal Perkins Loan Program (including NDSL loans), the Federal Direct Loan Program, or the Federal Family Education Loan Program ("FFELP" as defined in the Borrower's Rights and Responsibilities statement), or I have made satisfactory payment arrangements on the defaulted loans.

14. For all subsidized and unsubsidized Federal Stafford Loans (as described in the additional Note provisions and the Rights and Responsibilities statement) I receive under this Master Promissory Note, and for certain other loans as described below, I make the following authorizations:

A. I authorize my school to certify my eligibility for loans under this Master Promissory Note.

B. I authorize my school to transfer loan proceeds received by electronic funds transfer (EFT) or master check to my student account.

C. I authorize my school to pay to the lender any refund that may be due up to the full amount of the loans.

D. I authorize the lender, the guarantor, or their agents, to investigate my credit record and report information concerning my loan status to persons and organizations permitted by law to receive such information.

E. I request and authorize my lender to: **(i)** during the in-school and grace periods of any loans made under this Note, defer and align the repayment of principal on all of my FFELP loans that are in repayment status; and **(ii)** add unpaid interest that accrues on all my FFELP loans to the principal balance of such loans ("capitalization") including such loans made under this Note, during forbearance periods, and for unsubsidized loans, during in-school, grace, and deferment periods as provided under the Act. "Capitalization" will increase the principal balance on my loans and the total amount of interest cost I incur.

F. I authorize the release of information pertinent to my loans: **(i)** by the school, the lender, and the guarantor, or their agents, to the references on the applicable loans and to members of my immediate family unless I submit written directions otherwise; and, **(ii)** by and among my schools, lenders, guarantors, the Department of Education, and their agents.

G. So that the loans requested can be approved, I authorize the Department of Education to send any information about me that is under its control, including information from the Free Application for Federal Student Aid, to the school, the lender and to state agencies and nonprofit organizations that administer financial aid programs under the FFELP.

Promise to Pay

In this Note, "lender" refers to, and this Note benefits, the original lender and its successors and assigns, including any subsequent holder of this Note.

15. I promise to pay to the order of the lender all sums disbursed (hereafter "loan" or "loans") under the terms of this Master Promissory Note (hereafter "Note"), plus interest and other charges and fees that may become due as provided in this Note. **I understand that multiple loans may be made to me under this Note.** I understand that by accepting any disbursements issued at any time under this Note, I accept the obligation to repay the loans. I understand I may cancel or reduce the amount of any loan by refusing to accept or by returning all or a portion of any disbursement that is issued. Unless I make interest payments, interest that accrues on my unsubsidized loans during in-school, grace, and deferment periods will be added as provided under the Act to the principal balance of such loans. If I fail to make any payment on any loan made under this Note when due, I will also pay reasonable collection costs, including but not limited to attorney's fees, court costs, and other fees. I will not sign this Note before reading the entire Note, even if otherwise advised. I am entitled to an exact copy of this Note and the Borrower's Rights and Responsibilities statement. My signature certifies I have read, understand, and agree to the terms and conditions of this Note, including the Borrower Certifications and Authorizations printed above, the Notice Applicable to Subsequent Loans Made Under This Note, and the Borrower's Rights and Responsibilities statement.

I UNDERSTAND THAT I MAY RECEIVE ONE OR MORE LOANS UNDER THIS MASTER PROMISSORY NOTE, AND THAT I MUST REPAY SUCH LOAN(S).

16. Borrower's Signature ______________________ **17.** Today's Date *(Month/Day/Year)* __________

Additional Note provisions follow

Master Promissory Note *(continued)*

Disclosure of Loan Terms

This Note applies to both subsidized and unsubsidized Federal Stafford Loans described in the Interest section below. I agree that the lender may sell or assign this Note and/or my loans and acknowledge that any loan may be assigned independently of any other loan to which this Note applies. I agree that each loan is separately enforceable based on a true and exact copy of this Note. Loans disbursed under this Note are subject to the annual and aggregate loan limits specified in the Higher Education Act of 1965, as amended, 20 U.S.C. 1070, et seq., and applicable U.S. Department of Education regulations (collectively referred to as the "Act"). Under this Note, the principal amount that I owe, and am required to repay, will be the sum of all disbursements issued (unless I reduce or cancel any disbursements as provided below).

My lender will determine whether to make any loan under this Note after my loan eligibility is determined by the school where I am enrolled on at least a half-time basis. At or before the time of the first disbursement for each loan, a disclosure statement will be issued to me identifying the amount of the loan and additional terms of the loan. Important additional information is also disclosed in the Borrower's Rights and Responsibilities statement accompanying this Note. The Borrower's Rights and Responsibilities statement and any disclosure statement I receive in connection with any loan under this Note are hereby incorporated into this Note.

I may request additional loan funds for my educational costs (up to the annual and aggregate loan limits). If my school determines that I am eligible for any additional or adjusted loan amount, my school may certify such amount. My eligibility for subsidized and/or unsubsidized loans may change based on changes in my financial circumstances. My school will notify me of any changes in my eligibility. I will be notified of any changes or additions to my subsidized and/or unsubsidized loans in a separate disclosure statement.

Loan Cancellation

I may pay back all or a portion of a disbursement within time frames set by the Act and identified in the Borrower's Rights and Responsibilities statement or other disclosure statement I receive at or before disbursement. In such case, the origination fee and guarantee fee will be reduced or eliminated in proportion to the amount of the disbursement returned. I will not incur interest charges if I return the full loan amount as provided in the Act.

Interest

Unless my lender notifies me in writing of a lower rate(s), the rate(s) of interest for my loans are those specified in the Act. Rate information is presented in the Borrower's Rights and Responsibilities statement accompanying this Note and in a disclosure that is issued to me.

Interest accrues on the unpaid principal balance of each loan from the date of disbursement by the lender until the loan is paid in full. I agree to pay all interest charges on my subsidized Federal Stafford Loans except interest payable by the federal government under the Act. I agree to pay all interest charges on my unsubsidized Federal Stafford Loans. If I fail to make required payments of interest before the beginning or resumption of principal repayment, or during a period of deferment or forbearance, I agree that the lender may capitalize such interest as provided under the Act. There is no federal interest subsidy on unsubsidized loans, so the total amount of interest I am required to repay on unsubsidized loans will be higher than on subsidized loans.

Origination Fee and Guarantee Fee

For each subsidized and unsubsidized loan, the federal government charges an origination fee equal to the amount required by the Act. The guaranty agency(ies) that guarantee(s) my loans (in each case, the "guarantor") may charge a per loan guarantee fee not to exceed a maximum amount specified in the Act. I will pay these fees, as identified in the disclosure statement, which will be deducted proportionately from each disbursement of my loans. I understand the origination and guarantee fees may be refundable only to the extent permitted by the Act.

Late Charges and Collection Costs

The lender may collect from me: **(i)** a late charge for each late installment payment if I fail to make any part of a required installment payment within 15 days after it becomes due, and **(ii)** any other charges and fees that are permitted by the Act for the collection of my loans. If I default on any loans, I shall pay reasonable collection fees and costs, plus court costs and attorney fees.

Repayment

I am obligated to repay the full amount of the loans made under this Note and interest accrued thereon. Federal Stafford Loans have a repayment grace period, which will be disclosed in my disclosure statement. I will repay the principal of my loans in periodic installments during repayment periods that begin on the day immediately following the end of the applicable grace period. Payments submitted by me or on my behalf (exclusive of refunds) may be applied first to charges and collection costs that are due, then to accrued interest that has not been capitalized, and finally to the principal amount.

I understand that the school's certification of my loan eligibility determines whether my loans must be repaid as subsidized and/or unsubsidized loans.

The lender will provide me with a repayment schedule that identifies my payment amounts and due dates. Except as otherwise provided in the Act, the minimum annual payment required on all my FFELP loans is $600 or the amount of interest due and payable, whichever is larger. My lender must provide me with a choice of repayment plans consistent with the provisions of the Act.

If I am unable to make my scheduled loan payments, the lender may allow me to reduce my payment amount, to extend the time for making payments, or to temporarily stop making payments as long as I intend to repay my loan. Allowing me to temporarily delay or reduce loan payments is called forbearance. I agree that the lender may align payment dates on my loans or grant me a forbearance to eliminate a delinquency that persists even though I am making scheduled payments.

I may prepay all or any part of the unpaid balance on my loans at any time without penalty. If I do not specify which loans I am prepaying, the lender will determine how to apply the prepayment in accordance with the Act. Upon repayment in full of each loan under this Note, I agree to accept written notification of such loan payoff in place of receiving the original Note.

Acceleration and Default

At the option of the lender, the entire unpaid balance of the applicable loans shall become immediately due and payable upon the occurrence of any one of the following events: **(i)** I fail to enroll as at least a half-time student at the school that certified my loan eligibility, **(ii)** I fail to use the proceeds of the loans solely for educational expenses, **(iii)** I make a false representation(s) that results in my receiving any loans for which I am not eligible, or **(iv)** I default on the loans.

The following events shall constitute a default on my loans: **(i)** I fail to pay the entire unpaid balance of the applicable loans after the lender has exercised its option under items (i), (ii), or (iii) in the preceding paragraph; **(ii)** I fail to make installment payments when due, provided my failure has persisted for at least 270 days for payments due monthly; or **(iii)** I fail to comply with other terms of the loans, and the lender or guarantor reasonably concludes I no longer intend to honor my repayment obligation. If I default, the guarantor may purchase my loans and capitalize all then-outstanding interest into a new principal balance, and collection fees will become immediately due and payable.

If I default, the default will be reported to all national credit bureau organizations and will significantly and adversely affect my credit history. I acknowledge that a default shall have additional adverse consequences to me as disclosed in the Borrower's Rights and Responsibilities statement. Following default, the loans may be subject to income-contingent repayment (including potential collection of amounts in excess of the principal and interest) in accordance with the Act.

Governing Law and Notices

The terms of this Note will be interpreted in accordance with the Higher Education Act of 1965, as amended (20 U.S.C. 1070 et seq.), other applicable federal statutes and regulations, and the guarantor's policies. Applicable state law, except as preempted by federal law, may provide for certain borrower rights, remedies, and defenses in addition to those stated in this Note.

If a particular loan under this Note is made by the school, or if the proceeds of a particular loan made under this Note are used to pay tuition and charges of a for-profit school that refers loan applicants to the lender, or that is affiliated with the lender by common control, contract, or business arrangement, any lender holding such loan is subject to all claims and defenses that I could assert against the school with respect to such loan. My recovery under this provision shall not exceed the amount I paid on such loan.

If I reside in the state in which the principal office of the guarantor is located, the guarantor may sue to enforce the applicable loans in the county in which the guarantor's office is located. However, if I object to being sued there and I mail a written objection to the guarantor that is postmarked no later than 30 days after I am served with the suit, the guarantor will either have the court transfer the suit to the county in which I live or will dismiss the lawsuit.

Any notice required to be given to me will be effective if mailed by first class mail to the latest address the lender has for me. I will immediately notify the lender of change of address or status as specified in the Borrower's Rights and Responsibilities statement. Failure by the lender to enforce or insist on compliance with any term on this Note shall not be a waiver of any right of the lender. No provision of this Note may be modified or waived except in writing. If any provision of this Note is determined to be unenforceable, the remaining provisions shall remain in force.

Notice Applicable to Subsequent Loans Made Under This Note

This Master Promissory Note authorizes the lender to disburse multiple loans during the multi-year term of this Note upon my request and upon the school's certification of my loan eligibility.

Additional loans may be made under this Note for the same or subsequent periods of enrollment only at four-year or graduate schools, or other schools, as designated by the Secretary of the U.S. Department of Education. I agree that no subsequent loans will be made under this Note after the earliest of the following dates: **(i)** the date my lender receives my written notice that no further loans may be disbursed under the Note; **(ii)** one year after the date of my signature on this Note if no disbursement is made during such twelve month period; or **(iii)** ten years after the date of my signature on this Note.

Any amendment to the Act governs the terms of any loans disbursed on or after the effective date of such amendment, and such amended terms are hereby incorporated into this Master Promissory Note.

Federal Family Education Loan Program (FFELP)
Federal Stafford Loan Master Promissory Note Instructions and Notices

Guarantor, Program, or Lender Identification

Instructions for Completing Promissory Note

This is a Master Promissory Note under which you may receive multiple subsidized and unsubsidized Federal Stafford Loans over a maximum ten year period. Except for interest charges the federal government pays on your behalf on subsidized Federal Stafford Loans while you are in school and during your grace and deferment periods, you are responsible for paying interest on the principal amount of your loans from the date of disbursement until the loans are paid in full.

Use a dark ink ball point pen or typewriter. Do not complete this form in pencil. If an item has been completed for you and any part of it is incorrect, cross out the incorrect information and print the correct information. Incorrect, incomplete, or illegible information may cause your loan to be delayed.

Item 1: Enter your last name, then your first name and middle initial.

Item 2: Enter your nine-digit Social Security Number. If this item has been completed for you, review it for correctness. If it is incorrect, cross out the entire incorrect number and print the entire correct Social Security Number in this box. Your loan(s) cannot be processed without a Social Security Number. Read the Privacy Act and the Financial Privacy Act Notices below before completing this item.

Item 3: Enter your permanent home street address, apartment number, city, state and zip code. If you have a Post Office Box and a street address, list both. A temporary school address is not acceptable.

Item 4: Enter the area code and telephone number for the address listed in Item 3. If you do not have a telephone, enter N/A.

Item 5: Enter the month, day, and year of your birth. Use only numbers. Be careful not to enter the current year.

Item 6: Enter the two-letter abbreviation for the state that issued your driver's license followed by the driver's license number. If you do not have a driver's license, enter N/A.

Item 7: If you choose, enter the e-mail address you use most frequently.

Item 8: Enter the name and address of the lender from which you wish to borrow this loan(s). If you do not have a lender for this loan, contact your school's financial aid office, a bank or other financial institution, or the guarantor or program listed on this form for information on lenders willing to make loans to students attending your school.

Item 9: If you know the lender code, enter it here. Otherwise, leave this item blank.

Item 10: Enter the requested reference information for two adults who do not share a common United States address. The first reference should be a parent (if living), legal guardian, or an adult relative. References with addresses outside the U.S. are not acceptable. All requested items, including telephone number, must be complete or your loan(s) will be delayed. If a reference does not have a telephone, enter N/A in the appropriate space.

Item 11: Your school will notify you of the amount of subsidized and unsubsidized Stafford loans you are eligible to receive for this and subsequent academic periods. You may decline a loan or request a lower amount by contacting your lender or school. Additional information is included under "Loan Cancellation" in the Borrower's Rights and Responsibilities Statement.

Item 12: Check this box only if you want to make interest payments while in school.

Items 13, 14, and 15: Read these items carefully.

Item 16: Sign your legal name, including your first name, middle initial, and last name. Use a dark ink ballpoint pen. If you are making several copies, press firmly.

Item 17: Enter the date you are signing this Note.

Important Notices

Privacy Act Notice

The Privacy Act of 1974 (5 U.S.C. 552a) requires that the following notice be provided to you:

The authority for collecting the requested information from and about you is Section 484(a)(4)(B) of the Higher Education Act of 1965, as amended [20 U.S.C. 1091(a)(4)(B)]. You are advised that participation in the Federal Family Education Loan Program is voluntary, but the requested information is necessary for participation.

The principal purpose of this information is to verify your identity, to determine your Program eligibility and benefits, to permit the servicing of your loan(s), and, in the event it is necessary, to locate you and to collect on your loan(s) if it becomes delinquent or defaulted.

The routine uses of this information include its disclosure to federal, state, or local agencies, to private parties such as relatives, present and former employers, business and personal associates, to guaranty agencies, to credit bureau organizations, to educational and financial institutions, and to agency contractors in order to verify your identity, to determine your Program eligibility and benefits, to permit the servicing or collecting of your loan(s), to counsel you in repayment efforts, to investigate possible fraud and to verify compliance with Program regulations, or to locate you if you become delinquent in your loan(s) payments or you default.

You must provide all of the information requested in order to have your loan processed.

Section 7(b) of the Privacy Act of 1974 (5 U.S.C. 552a Note) requires that when any federal, state, or local government agency requests that you disclose your Social Security Number (SSN), you must also be advised whether that disclosure is mandatory or voluntary, by what statutory or other authority your SSN is solicited, and what uses will be made of it.

Section 7(a)(2) of the Privacy Act provides that an agency may continue to require disclosure of your SSN as a condition to grant you a right, benefit, or privilege provided by law in cases in which the agency required this disclosure under statute or regulation prior to January 1, 1975, in order to verify the identity of an individual.

Disclosure of your SSN is required to participate in the Federal Family Education Loan Program. The United States Department of Education has, for several years, consistently required the disclosure of the SSN on application forms and other necessary Federal Family Education Loan Program documents adopted pursuant to published regulations.

Your SSN will be used to verify your identity, and as an account number (identifier) throughout the life of your loan(s) in order to record necessary data accurately. As an identifier, the SSN is used in such Program activities as determining your Program eligibility, certifying your school attendance and student status, determining your eligibility for deferment of payments, determining your eligibility for loan discharge, and for tracing and collecting from you in case you become delinquent in your loan payments or you default.

Financial Privacy Act Notice

Under the Right to Financial Privacy Act of 1978 (12 U.S.C. 3401-3421), the U.S. Department of Education will have access to financial records in your student loan file maintained by the lender in compliance with the administration of the Federal Family Education Loan Program.

Paperwork Reduction Notice

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a currently valid OMB control number. The valid OMB control number for this information collection is 1845-0006. The time required to complete this information is estimated to average 1.0 hours (60 minutes) per response, including the time to review instructions, search existing data resources, gather and maintain the data needed, and complete and review the information collection. **If you have any comments concerning the accuracy of the time estimate(s) or suggestions for improving this form, please write to:**

U.S. Department of Education
Office of Student Financial Assistance
Policy Development Division
400 Maryland Avenue
S.W. (Room 3053, ROB-3)
Washington, DC 20202-5449.

If you have comments or concerns regarding the status of your individual submission of this form, contact the lender, guarantor, or program identified in the upper right-hand corner of this form.

Federal Family Education Loan Program (FFELP)	Guarantor, Program, or Lender Identification
Federal Stafford Loan School Certification	
WARNING: Any person who knowingly makes a false statement or misrepresentation on this form is subject to penalties which may include fines or imprisonment under the United States Criminal Code and 20 U.S.C. 1097.	
(Reserved for school, lender, or guarantor mailing address as appropriate)	1. School Code 2. School Information (Name, address, and phone number)

To be completed by a financial aid administrator or other school official authorized to certify financial aid forms.

3. Borrower's Last Name / First Name / MI			4. Social Security Number
5. Permanent Street Address		6. Telephone Number	7. Date of Birth (Month/Day/Year)
City / State / Zip		8. Borrower e-mail Address (optional)	
9. Lender Code/Name			
10. Grade Level	11. Enrollment Status (Check one) ☐ Full Time ☐ At Least Half Time	12. Anticipated (Completion) Graduation Date (Month/Day/Year)	
13. Loan Period (Month/Day/Year) From: To:	14. Certified Loan Amounts a. Subsidized $ .00 b. Unsubsidized $ .00	15. Recommended Disbursement Date(s) (Month/Day/Year) 1st 2nd 3rd 4th	

School Certification

I hereby certify that the borrower named on this Certification is accepted for enrollment on at least a half-time basis and is making satisfactory progress in a program that is eligible for the loan type(s) certified. I certify that the student is an eligible borrower in accordance with the Higher Education Act of 1965, as amended, and applicable U.S. Department of Education regulations (collectively referred to as the Act). I further certify that the borrower's eligibility for a Pell Grant has been determined, that the borrower is not incarcerated, and that the borrower has been determined eligible for loan(s) in the amount(s) certified. I further certify that the disbursement schedule complies with the requirements of the Act and hereby authorize the guarantor and/or the lender to adjust disbursement dates if necessary to ensure compliance with the Act. I further certify that, based on records available and due inquiry, the borrower has met the requirements of the Selective Service Act and that the information provided in this Certification is true, complete, and accurate to the best of my knowledge and belief. I agree to provide the borrower **(i)** with confirmation of any transfer of funds through electronic funds transfer (EFT) or master check to the borrower's student account, and **(ii)** with an opportunity to cancel or reduce any disbursement of a loan.

16. Signature of Authorized School Official ______________________ 17. Date *(Month/Day/Year)* ______________

Name/Title *(Printed or Typed)* ______________________

Please refer to the instructions for completing this form.

Instructions for Certifying a Federal Stafford Loan

***Important Notice:** If certification information is transmitted electronically, do not complete the School Certification form.*

Item 1: Enter the code for your institution. This code is provided by the U.S. Department of Education for the Federal Family Education Loan Program.

Item 2: Enter your school name, address, and telephone number, including area code, of the school official who can answer questions about this certification.

Item 3: Enter the borrower's complete name, last name first, followed by the first name and middle initial.

Item 4: Enter the borrower's social security number.

Item 5: Enter the borrower's permanent street address.

Item 6: Enter the borrower's telephone number.

Item 7: Enter the borrower's date of birth in month, day, year format.

Item 8: Enter the borrower's e-mail address if known.

Item 9: Enter the borrower's lender selection (identification number and name) if known.

Item 10: Enter the academic level of the student seeking this loan. Select the proper grade level indicator using the standard grade level codes provided:

Code	Grade Level
1	Freshman/First Year (including proprietary institution programs that are less than one year in duration)
2	Sophomore/Second Year
3	Junior/Third Year
4	Senior/Fourth Year
5	Fifth Year/Other Undergraduate (including sixth year undergraduate and continuing education students)
A	First Year Graduate/Professional
B	Second Year Graduate/Professional
C	Third Year Graduate/Professional
D	Beyond Third Year Graduate/Professional

Item 11: Indicate whether the student is (or plans to be) enrolled at least half time or full time. Students enrolled (or planning to enroll) less than half time are not eligible.

Item 12: Enter the date the student is expected to complete the program at your institution. Use numbers in a Month/Day/Year format; for example, 6/9/96. Day date is needed to determine the specific day the student will enter repayment (as per the Act). If you are unsure of the actual completion date in the future, enter the last day of the month.

Item 13: Enter the dates covered by the student's cost of attendance. These dates must coincide with actual term starting and ending dates. At a school without academic terms, these dates must coincide with the borrower's program of study if that is less than an academic year in length, or the academic year. Use numbers in a Month/Day/Year format.

Item 14: Enter the lesser of the following: A) the amount of the student's eligibility for each loan type, or B) the loan amount requested by the student. The student's eligibility must be reduced if the student is attending a program with a length of less than a full academic year, or completing the remaining balance of a program in a period of less than an academic year. The student's eligibility may also be reduced based on professional judgment. If this field is left blank, the loan(s) will be delayed.

Item 14a: Certify the lesser of the student's eligibility for a subsidized Federal Stafford Loan or the subsidized Stafford amount requested by the student. If the student is not eligible for a subsidized Federal Stafford Loan, enter 0.

Item 14b: Certify the lesser of the student's eligibility for an unsubsidized Federal Stafford Loan or the unsubsidized Stafford amount requested by the student. If the student is not eligible for an unsubsidized Federal Stafford Loan, enter 0.

Item 15: Enter the disbursement dates for this loan(s) as determined in accordance with the Act.

Item 16: Your signature acknowledges that you have read and agree to the provisions in the School Certification. You must sign the Certification and print your name and title.

Item 17: Enter the date of Certification.

Loan Counseling

CHAPTER 5

Loan counseling is particularly important because new students often have little or no experience with anticipating repayment and managing debt. Your school must ensure that the student receives comprehensive entrance and exit counseling, even though the counseling may be given by a consultant or a servicer, or by a lender or guarantor (usually on the Web). At a minimum, the student has to receive entrance counseling before the first disbursement of a loan can be made, and exit counseling before leaving school. If the counseling is given electronically, the school is still responsible for making sure that the student receives written counseling materials and for making knowledgeable staff available to answer student questions.

This chapter covers the elements of entrance and exit counseling that are required by regulation or recommended. However, there are many ways to deliver this information, and to reinforce it through continuing contacts with your student borrowers. You have an opportunity at each disbursement to remind students about the importance of academic progress, planning for future employment, and staying in touch with the holder of the loan. If loan counseling is ongoing, the exit interview is simply a review of information conveyed during the course of the student's program of study and a means of presenting additional material to prepare the student for repaying loans.

Dynamic presentation of material at both entrance and exit interviews—using charts, handouts, audiovisual materials, and question-and-answer sessions—can convey your message with greatest effect. Many guaranty agencies, lenders, and other organizations offer videos, pamphlets, and other counseling materials. The Direct Loan program also offers entrance and exit counseling guides as well as companion videos for counselors and borrowers.

Your school may choose to rely on the Web counseling services offered through the Direct Loan Program and through many lenders and guarantors. The program regulations have been amended to allow a school to provide counseling through "interactive electronic means." However, bear in mind that knowledgeable financial aid staff at the school must be reasonably available to answer questions from student borrowers.

Direct Loan Counseling

Direct Loan schools can order counseling materials by calling:

1-800-848-0978

On-line counseling and print materials are also available on-line at the Direct Loan Web Site:

http://www.ed.gov/DirectLoan

On-Line Counseling

Discussion in preamble to August 10, 1999 NPRM;
FFEL—34 CFR 682.604
DL—34 CFR 685.304

NEW

Regardless of the counseling methods your school uses, you must be sure to document that the student received entrance counseling. In the case of Web-based counseling, the documentation may consist of the student's certification on a copy of the "Borrower's Rights and Responsibilities" that he/she has received entrance counseling. You can usually get confirmation that the student has completed the on-line counseling session through a printout, electronic message, or other means.

The chart at the end of this chapter summarizes information to be covered as a part of entrance and exit counseling sessions. The arrows indicate those elements that must be covered in both entrance and exit counseling.

Counseling materials for overseas or correspondence students

If a borrower is participating in a school's junior-year-abroad program or other off-campus program, and has not previously received a loan at that school, the school must provide entrance counseling information by mail before releasing loan proceeds. A school that offers correspondence coursework as part of its academic programs must also provide the information by mail before releasing loan proceeds.

Entrance Counseling

34 CFR 682.604(f); 34 CFR 685.304(a); 34 CFR 668 Appendix D

ENTRANCE COUNSELING

A school must conduct "initial" or entrance counseling before releasing the first disbursement of the first Federal Stafford Loan made to a student borrower. The counseling must be conducted in person, by audiovisual presentation, or by interactive electronic means, and a person knowledgeable about Student Financial Assistance (SFA) programs must be available for questions shortly after the counseling session.

Required elements of entrance counseling

The Direct Loan and FFEL regulations and Program Participation Agreements *require* that certain information be included in entrance counseling. In addition, the regulations *recommend* that the entrance counseling include the information listed in Appendix D of the General Provisions (34 CFR 668). Some of this information is included in the "Borrower's Rights and Responsibilities" statement that must accompany the MPN, but you should review and elaborate on these points as a part of the counseling presentation. The required counseling information is discussed below, with notes to any related information recommended by Appendix D.

NEW

- **Use of the Master Promissory Note.** Both the Direct Loan and FFEL regulations require that entrance counseling include an explanation of the MPN. You should advise the student to carefully read the MPN and the Borrower's Rights and Responsibilities statement before signing the MPN.

- **Importance of repayment.** The regulations also require that entrance counseling "emphasize ... the seriousness and importance of the repayment obligation." The counseling should stress that the borrower must make payments on his or her loans even if the borrower does not receive a payment booklet or a billing notice. The lender or Direct Loan Servicing Center sends payment coupons or billing statements as a convenience for the borrower. Not receiving them does **not** relieve the borrower of his or her obligation to make payments. (Direct Loan borrowers are encouraged to set up electronic debiting of a bank account to repay their loans—electronic debiting is also available through many FFEL lenders.)

- **Consequences of default.** Entrance counseling must "describe in forceful terms the likely consequences of default, including adverse credit reports and litigation." Appendix D makes some more specific recommendations for the counseling session. The borrower should be told of the charges that might be imposed for delinquency or default, such as the lender or guarantor's collection expenses (including attorney's fees). Defaulters often find that repayment schedules for loans that have been accelerated are more stringent than the original repayment schedule. A defaulter is no longer eligible for any deferment provisions, even if he or she would otherwise qualify. Finally, a defaulter's federal and state tax refunds may be seized, federal wages garnished, and the borrower loses eligibility for any further funding from the SFA programs.

- **Must repay regardless of educational outcome.** Entrance counseling information for an FFEL school must explain that the student borrower is obligated to repay the full loan even if he or she doesn't finish the program, can't get a job after graduating, or is dissatisfied with the school's educational program or other services.

- **Average indebtedness and monthly repayment.** A Direct Loan school must include general information on the average indebtedness and the average anticipated monthly repayment for students who have received Direct Loans in the same educational program or at that school. (This information is not *required* for FFEL schools, but is *recommended* in Appendix D of the General Provisions.

Recommended elements from Appendix D

Some of the recommendations in Appendix D of the General Provisions are mentioned above, where they relate to required counseling information. The remaining recommendations are listed below.

- **Terms and conditions of the loan.** As a part of entrance counseling, the borrower should be told the stated interest rate on his/her loan(s), the applicable grace period, and the approximate date the first installment payment will be due.

  Often a student loan is the borrower's first experience in obtaining a loan of any kind, and a counselor should clearly explain basic loan terminology to ensure that a borrower is aware of his or her obligations. FFEL program counseling materials should define terms such as "loan servicer," the use of contractors to service the loan, and should explain the process of selling loans to other lenders or to "secondary markets." Lenders and guaranty agencies provide explanations about these and other terms in the material they make available to

Alternative Entrance Counseling Approaches

The Direct Loan regulations describe how a school may adopt alternative approaches as a part of its quality assurance plan — see 685.304(a)(5) students and schools. (A loan servicer is a corporation that administers and collects loan payments for the loan holder. A secondary market is a lender or a private or public agency that specializes in buying student loans.)

- **Repayment Options.** The counseling information should explain that the **exact** repayment schedule will not be provided until loan repayment begins. The student should also be told that certain fees (origination fee and, for FFEL, an insurance fee) will be subtracted from the loan amount before the loan is disbursed but that repayment of the **full** loan amount is required. The counseling should also review the availability of loan consolidation and refinancing.

- **Budgeting.** It would also be helpful to include general information for the student about budgeting of living expenses and personal financial management. Financial planning includes decisions by the borrower about the amount of student aid that he or she can afford to borrow. Budgeting information can be combined with an assessment of the student's earning potential in his or her chosen career, and with required information about anticipated monthly payments and overall indebtedness.

- **Communication with the lender and change in status.** The counseling should stress the student's obligation to keep the lender (or the Direct Loan Servicing Center) informed about address changes, or changes in enrollment. (Failure to tell the lender about these changes is perhaps the primary reason that loans go into default.) The borrower should always know the most current name and address of the lender, the loan servicer, and the guarantor of the loan.

  The student is required to inform the lender when he or she graduates, changes schools, drops below half-time, or withdraws from school. The borrower also must tell the DL Servicing Center or the lender if his/her address changes (including changes in the permanent address while in school). The student should also be reminded of the importance of notifying the holder of the loan in the event of a name change (including the change of a last name through marriage) or a change in Social Security Number.

- **Requesting deferments, etc.** The borrower should have a general understanding of the deferment, forbearance, and cancellation options, and how to apply for them. The counseling should stress that the borrower needs to contact the lender if he or she is having difficulty in repaying the loan, as the lender may be able to suggest options that would keep the loan out of default.

- **Review Borrower's Rights and Responsibilities.** As noted in the chapter on Making Loans, the student must receive a statement of Borrower's Rights and Responsibilities. This may be provided by the Direct Loan Origination Center or the FFEL lender, but it's a good idea to review the information on the statement with the borrower to make sure that he or she is familiar with that information.

Appendix D also recommends the use of written tests to make sure that the student understands the terms and conditions of Stafford Loans. If the student fails the test, the school should make sure that the student receives additional counseling. (Testing and additional counseling after failed tests are *required* if the school is implementing a default management plan because it has a high cohort default rate.)

Other useful information for entrance counseling

There are some other helpful things that the borrower should be aware of, even though they are not explicitly mentioned in the regulations. You may want to include these in your counseling materials:

- **Refund and other policies affecting withdrawals.** The borrower should be aware of the school's academic progress policy and refund policy, and the conditions for return of SFA funds.

- **Importance of keeping loan records.** This would be a good time, if the financial aid administrator has the resources, to provide a student with a folder or other aids to encourage him or her to keep all financial aid materials in one place. The student should keep copies of all records relating to the loan, beginning with the Master Promissory Note, records showing when the student received loan payments or his/her account was credited. The borrower should keep the loan repayment schedule provided by the lender when repayment begins, as well as records of payments made by the borrower—including canceled checks and money order receipts. The borrower should keep copies of any requests for deferment or forbearance, or any other correspondence with the lender.

- **Availability of other aid.** In the Program Participation Agreement (PPA), a school agrees to provide information about state grant assistance in the state where it is located. (For out-of-state students, a source of information for state grant assistance in the student's home state.) In general, you should always encourage your student borrowers to explore sources of grant assistance that might might reduce their need for loans.

Exit Counseling Requirements Cites
DL—34 CFR 685.304(b); FFEL—34 CFR 682.604(g)

Staying in Touch with the Direct Loan Servicer
If they keep their PIN number handy, Direct Loan borrowers can manage their loans on-line by going to:

http://www.dlservicer.ed.gov/

to check account balances, change address, estimate repayments, or print out forms (deferment, forbearance, electronic debit account).

- **Reminder about exit counseling.** Because many students leave school before the scheduled end of their academic programs, it's helpful to remind students during entrance counseling that they are obligated to attend exit counseling before they cease to be enrolled **at least half time**.

EXIT COUNSELING

A school can conduct exit counseling in person, either individually or in groups. As with entrance counseling, exit counseling is also offered on the Web by guarantors, lenders, and the Direct Loan Program. Student borrowers should be advised to complete on-line exit counseling or sign up for a counseling session (if offered at yours school) shortly before graduating or ceasing at-least-half-time enrollment. As with entrance counseling, knowledgeable financial aid staff at the school must be reasonably available to answer questions from student borrowers. One of a borrower's obligations is to participate in an exit counseling session.

Required elements of exit counseling

Some of the material presented at the entrance counseling session will again be presented during exit counseling. The emphasis for exit counseling shifts, however, to more specific information about loan repayment and debt-management strategies. The following information must be provided as a part of exit counseling:

- **Projected monthly repayment.** The borrower must be given an estimate of the average monthly payments based on his/her indebtedness (or on the average indebtedness of Stafford borrowers at that school or in that program). Appendix D recommends that the borrower be given a sample *loan repayment schedule* based on his/her total indebtedness. A loan repayment schedule usually will provide more information than just the expected monthly payment — for instance, it would show the varying monthly amounts expected in a graduated repayment plan.

  Note that the lending organization is not required to send the repayment schedule to the borrower until the grace period. Direct Loan borrowers who use the On-line Exit Counseling Session (www.dlservicer.ed.gov) can view repayment schedules based on their account balances (using their PIN numbers), select a repayment plan, and update demographic information.

  In Direct Loans, a school may request that the Servicing Center send the repayment schedule information to the financial aid office 30, 60, or 90 days before the student completes the program. If the school chooses this option, it accepts the obligation to deliver this repayment information to the borrower either in the exit counseling session or by mailing it to the borrower.

- **Repayment options.** The counseling must review the available options for loan repayment, such as the standard, extended, graduated, and income contingent/income-sensitive plans. The option of consolidating loans must also be discussed.

  A Consolidation Loan can help student and parent borrowers simplify loan repayment by consolidating several types of federal student loans with various repayment schedules into one loan. The borrower can even consolidate just one loan into a Direct Consolidation Loan to get benefits such as flexible repayment options. If the borrower has more than one loan, a Consolidation Loan simplifies repayment because there's only one monthly payment. Also, the interest rate on the Consolidation Loan may be lower than what the borrower is paying on some of his/her current loans. Consolidation may also be an option for a borrower in default, if certain conditions are met.

  Both the Direct Loan Program and the FFEL Program offer Consolidation Loans. Direct Consolidation Loans are available from the U.S. Department of Education. FFEL Consolidation Loans are available from participating lenders such as banks, credit unions, and savings and loan associations.

- **Debt management strategies.** A counselor should stress the importance of developing a realistic budget based on the student's minimum salary requirements. It's helpful to have the student compare these costs with the estimated monthly loan payments, and to emphasize that the loan payment is a fixed cost, like rent or utilities.

- **Deferment, forbearance, and cancellation.** The counseling should reinforce the availability of deferment and cancellation for certain situations, and emphasize that the borrower must initiate the process by applying to the lender or the Direct Loan Servicing Center. FFEL schools are also required to discuss the availability of forbearance. It's also very important that the borrower remember that he or she must continue to make payments on the loan while waiting for approval of the request for any of these conditions.

- **Keeping in touch with the lender and change of status**. Exit counseling should review the borrower's responsibility to notify either the lender or the Direct Loan Servicing Center of important changes in enrollment status and contact information.

- **Other information from entrance counseling**. Exit counseling also must review several other topics that were covered in entrance counseling: the consequences of default and the importance of the repayment obligation. Exit counseling at FFEL schools must also review the use of the Master Promissory Note, and the obligation to repay the loan even if the borrower

Checking Completion of On-Line Exit Counseling

Direct Loan schools can use the program's Web site to confirm which of their students has completed on-line exit counseling:

http://www.dlservicer.ed.gov/schools/

SFA Ombudsman Office

Toll-free: 1-877-557-2575
http://sfahelp.ed.gov

Office of the Ombudsman
U.S. Dept. of Education
ROB-3, Room 3012
7th & D St. SW
Washington, DC 20202-5144

(202) 401-4498
fax: (202) 260-1297

NEW

Borrower's Rights and Responsibilities Statement

These are the contents of the statement that the borrower must receive prior to signing the master promissory note — Appendix D recommends that you review the student's rights and responsibilities as a part of exit counseling.

- Governing Law
- Use of this Note
- Subsidized and Unsubsidized Loans
- Maximum Program Loan Amounts
- Maximum Individual Loan Amounts
- Use of Loan Money.
- Disbursement of Loan Money
- Change of Status
- Effect of Loans on Other Student Aid
- Grace Period
- Repayment
- Interest Rates
- Payment of Interest
- Loan Cancellation
- Sale or Transfer of Loans (FFEL)
- Loan Discharge
- Consequences of Default
- Capitalization of Interest
- Credit Bureau Notification
- Special Repayment Arrangements
- Deferments
- Forbearance
- Repayment Chart (showing repayment amounts under different repayment plans, based on varying amounts of initial debt)

drops out, doesn't get a job, or is otherwise dissatisfied with the quality of the school's educational programs and services.

- **Provide information about the availability of the SFA Ombudsman's office.** The Ombudsman's office is a resource for borrowers to use when other approaches to resolving student loan problems have failed. Borrowers should first attempt to resolve complaints by contacting the school, company, agency, or office directly involved. If the borrower has made a reasonable effort to resolve the problem through normal processes and has not been successful, he or she should contact the SFA Ombudsman.

Further recommendations for exit counseling

The exit counseling provisions in the Direct Loan and FFEL regulations also refer to the recommendations in Appendix D of the Student Assistance General Provisions. Some of these recommendations have already been mentioned as a part of the required elements.

Appendix D recommends that the school provide the borrower with the current name and address of the borrower's lender(s), based on the latest information the school has. The counseling presentation should also explain to the student how to complete deferment forms and prepare correspondence to the lender.

As with entrance counseling, Appendix D of the General Provisions recommends the use of written tests to ensure comprehension of the exit counseling information, with additional counseling provided to students who fail the test. (Testing and additional counseling may be *required* if the school is implementing a default management plan.)

Information to be provided by borrower

During exit counseling, the financial aid administrator must obtain the borrower's expected permanent address after leaving school, the address of the borrower's next of kin, and the name and address of the borrower's expected employer (if known). A school must correct its records to reflect any changes in a borrower's name, address, Social Security Number, or references, and it must obtain the borrower's current driver's license number. Within 60 days after the exit interview, the financial aid office must provide this information to the guarantor (indicated in the borrower's student aid records) or the Direct Loan Servicing Center.

Responsibilities if a student misses exit counseling

If the student borrower drops out without notifying the school, the financial aid administrator must confirm that the student has completed on-line counseling, or mail exit counseling material to the borrower at his or her last known address. The material must be mailed within 30 days after learning that the borrower has left school or failed to participate in an exit counseling session. For correspondence programs, the financial aid administrator must send the borrower written counseling materials within 30 days after the borrower completes the program, with a request that the borrower provide the contact and personal information that would ordinarily have been collected through the counseling process.

A school mailing these exit materials is not required to use certified mail with a return receipt requested, but it must document in the student's file that the materials were sent. If the student fails to provide the information, the school is not required to take any further action.

Entrance Counseling

Required Elements:

Reinforce importance of repayment

Describe consequences of default

Explain use of the Master Promissory Note

Stress that repayment is required regardless of educational outcome and subsequent employability

Provide estimate of average indebtedness and monthly repayment

Recommended Elements:

Review terms and conditions of the loan

Review repayment options

Discuss budgeting

Reinforce importance of communicating change of status, etc. with the lender

Review deferment, forbearance, cancellation options and procedures

Review Borrower's Rights and Responsibilities

Other Useful Information:

Discuss availability of other aid

Review refund and other policies affecting withdrawals

Reinforce importance of keeping loan records

Remind student of exit counseling requirement

Exit Counseling

Required Elements:

Review elements also covered in entrance counseling (see left-hand column.

Elements indicated by outlined arrow are only required to be repeated in exit counseling for FFEL.)

Provide estimate of monthly payments

Review loan consolidation option (and, at Direct Loan Schools, repayment options)

Discuss debt management strategies and options

Review deferment and cancellation options and procedures (and, at FFEL schools, forbearance)

FFEL schools: reinforce Importance of communicating change of status, etc., with the lender. DL Schools: explain how to contact Servicing Center

Provide information about availability of SFA Ombudsman's office

Update any changes to student's personal information (name, social security number, etc.) and collect driver's license number, expected permanent address, address of next of kin, and name and address of employer (if known).

Recommended Elements:

Provide student with contact information for lender(s)

Advise student on preparation of correspondence to lender, deferment requests, etc.

Payment to the Borrower

CHAPTER 6

The Department (in Direct Loans) or a lender (in FFEL) provides loan funds to the school for payment to the student or parent borrower. The school is responsible for ensuring that the student is still enrolled at least half-time and otherwise eligible at the time of payment. A school may credit loan proceeds to the student's account, pay the student or parent directly, or combine these methods. In 1996, cash management regulations set specific time frames for transfer of funds to the school and payment to the borrower—be sure to review Chapter 5, Volume 2 of this Handbook for a discussion of those disbursement requirements for all SFA programs.

THE DISBURSEMENT PROCESS

Since student aid payments are usually made through the school, the first step in the disbursement process is the transfer of funds to the school. In Direct Loans, a school receives loan funds from the Loan Origination Center, or by means of a direct drawdown from the Department's payment system. In the FFEL program, the lender transfers loan funds to the school on the dates specified by the school.

At one time in the loan programs, it was common for the lender to send individual checks to the school for each loan that was being disbursed. The loan check would then be endorsed by the student. Now it is much more common for a lender to use electronic funds transfer (EFT) or a master check to send a single disbursement to the school for multiple borrowers. (In the Direct Loan Program, EFT has always been used.) In this case, the school acts as trustee for the lender, and the funds must be deposited in an account meeting the requirements of 34 CFR 668.163. For an EFT or a master check, the lender must provide a list of the names, Social Security Numbers, and loan amounts of the borrowers whose payments are considered a part of those funds.

Note that the law requires the borrower's authorization if the lender will use EFT or master check to transfer loan funds to the school. Since the Master Promissory Note (MPN) and the PLUS Loan application include this authorization, a school usually doesn't have to obtain the borrower's authorization separately.

A disclosure statement must be provided to the borrower either at or prior to the first disbursement. In the FFEL Program, the disclosure statement is provided by the lender or guarantor. In the Direct Loan Program, the school may choose to send disclosure statements or let the Loan Origination Center (LOC) send them. The

A Note on Terminology ...

Traditionally, the FFEL regulations have referred to the lender's "disbursement" of funds to the school, and the school's "delivery of the loan proceeds" to the student. More recently, the Cash Management regulations have defined the disbursement of a loan as the payment to the borrower.
In this chapter, we will use "disbursement" in the sense of the Cash Management regulations, that is, payment to the borrower.

Paying Loan Funds to the Borrower

34 CFR 668.164, General Provisions
34 CFR 682.604, FFEL
34 CFR 685.303, Direct Loans

Student starts later in the payment period
If a student delays attending school but begins attendance within the first 30 days of enrollment, the school may consider the student to have maintained eligibility for the loan from the first day of the enrollment period.

disclosure will include information that is specific to the borrower's loan: the type of loan, anticipated disbursement amount(s), anticipated disbursement date(s), and instructions on how to cancel the loan(s). For any subsequent loans provided under an existing MPN, borrowers also receive a "Plain Language Disclosure (PLD)" developed and distributed by the Department.

Checking eligibility at the time of disbursement

You've already certified that the student is eligible when you sent the loan information to the lender (see Chapter 4, "Starting the Loan Process"). However, a school must also ensure that the student is still eligible at the time of the disbursement.

The most common change that would make a student ineligible for a disbursement is if the student has dropped below half time, so it is important that your office have a system to check the student's enrollment status at the time of disbursement.

If the student has dropped below half-time temporarily, the school or lender may still make a first disbursement (and subsequent disbursements) after the student resumes at least half-time enrollment. However, you must make sure that the student continues to qualify for the entire amount of the loan—the change in enrollment may have resulted in a significantly lower cost of attendance. The school must document this review in the student's file.

Also remember that your school cannot retain the loan funds indefinitely—check "Time Frames to Disburse Loan Funds" later in this chapter.

When you report the student's change in enrollment status but expect the student to resume enrollment within a time period that is less than a payment period in length, you must specifically request that the lender make the second or subsequent disbursements. Otherwise, the lender is required by law to cancel the second disbursement. (See 34 CFR 682.207(b))

If the student has transferred from another school, you must check the National Student Loan Data System to confirm that the student is not in default and is still within the annual and aggregate loan maximums. (See Chapter 4 of this volume, for more information on using the NSLDS to confirm the outstanding loan amounts for transfer students.)

Notification of loan disbursement

The cash management regulations state that schools must notify students not only of the amount of SFA funds the students can expect to receive but also the amount that **parents** can expect to receive. The notice must delineate which loan funds are subsidized and which are unsubsidized and explain how and when students' and parents' expected SFA funds will be disbursed.

When crediting students' accounts with SFA loan funds, schools must notify students or parents (for a PLUS) electronically or in writing of the date and amount of the disbursement. Schools must send the notice **no earlier than 30 days before and no later than 30 days after** crediting the student's account. In the case of electronic notification, the school must require the recipient to confirm receipt and must maintain a copy of that confirmation. The notice must also explain the borrower's right to cancel all or a portion of the disbursement and the procedures for doing so (unless the loan was an FFEL loan paid through a check requiring the endorsement of the borrower).

With the first disbursement of the loan, the school, the lender, or the Direct Loan Origination Center must provide the borrower with a copy of the completed promissory note and repayment information. (See Volume 2 of the *SFA Handbook* for more information on required authorizations and notifications in the SFA Programs.)

Date of disbursement defined

The Cash Management regulations define the disbursement date as the date that the school credits the student's account or pays a student or parent directly with SFA funds (or with institutional funds as an advance on expected SFA funds). If the school advances its own funds for expected SFA funds prior to 10 days before classes begin, the disbursement is considered to have been made on the 10th day before classes began. (The same principle applies to funds the school might advance to a first-time first-year borrower before the 30th day of the payment period—the disbursment is considered to have been made on the 30th day of the payment period.)
See 34 CFR 668.164(a)

CREDIT TO THE STUDENT'S ACCOUNT AND CREDIT BALANCES

Most schools use the Stafford or PLUS loan funds to satisfy remaining charges on the student's account. Stafford and PLUS funds may be credited towards tuition and fees, and room and board (if provided by the school).

If the student or parent authorizes it, the school may also use the SFA funds to pay other school charges for educationally related activities in the current year, and for minor prior award year charges. Minor charges are defined as charges less than $100, or charges that will not prevent the student from paying educational costs for the current award year or for the loan period.

If the payment of the Stafford or PLUS loan satisfies the remaining school charges on the student's account, any credit balance must be paid directly to the student for living expenses. In the case of a PLUS loan, the credit balance must be paid to the parent unless the parent has authorized the school to pay the balance to the student.

Credit to account & credit balances

See 34 CFR 668.164(c) - (e)

There are four methods that a school may use to pay the credit balance to the student or parent borrower:

- issuing a check or other instrument payable to and requiring the endorsement or certification of the student or parent (by releasing or mailing it to the borrower or by notifying the borrower that the check is available for immediate pickup);
- initiating an electronic funds transfer (EFT) to a bank account designated by the student or parent;
- paying the borrower in cash, provided that the school obtains a signed receipt from the student or parent; and

Disclosure Statement

An FFEL lender must give a borrower a copy of an initial disclosure statement prior to, or at the time of, the first loan disbursement. In the Direct Loan Program, a school may elect to provide this disclosure to the student, or, if the school prefers, the statement will be provided to the student by the Loan Origination Center. This disclosure must state:

- in bold print that this is a loan that must be repaid;
- the principal amount of the loan and the actual interest rate;
- the amount of any charges, including the origination fee if applicable, and the insurance premium, to be collected by the lender before or at the time of each loan disbursement;
- when repayment is required and when the borrower is required to pay the interest that accrues on the loan;
- the name and address of the lender and the address to which communications and payments should be sent;
- that the lender may sell or transfer the loan to another party and that the address and identity of the party to which correspondence and payments should be sent may change;
- the yearly and cumulative maximum amounts that may be borrowed;
- that information concerning the loan (including the amount of the loan and the date of disbursement) will be reported to a national credit bureau;
- the minimum annual payment required, and minimum and maximum repayment periods;
- an estimate of the monthly payment due the lender, based on the borrower's cumulative outstanding debt (including the loan applied for);
- refinancing and consolidation options;
- that the borrower has the right to make prepayments;
- circumstances under which repayment of principal or interest on the loan may be deferred and an explanation of forbearance;
- that the U.S. Department of Defense offers a repayment option as an enlistment incentive;
- the definition and consequences of default;
- the effect of the loan on eligibility for other student assistance; and
- an explanation of borrower costs incurred in collection of the loan.

The information on the disclosure statement must be the most up-to-date information concerning the loan and must reflect any changes in laws or federal regulations that may have occurred since the promissory note was signed. If the student has questions about the statement, he or she should contact the lender immediately. If the student wishes to cancel the loan, he or she should contact the school immediately. In either case, the student should **not** endorse a loan check or an EFT form authorizing transfer of loan proceeds to his or her account.

- releasing a check from an FFEL Program lender to the student or parent.

A school must pay a credit balance directly to a student or parent as soon as possible, but no later than 14 days after the first day of class of a payment period if the balance was created on the first day of class or before classes began. If the credit balance was created *after* the first day of class, the school must pay the balance no later than 14 days after the balance was created. (This 14-day requirement is now a standard for all SFA programs.)

Payment of the credit balance may be delayed or "rationed" **only** if the student or parent (for a PLUS loan) authorizes it in writing. (This is a general SFA program requirement — see Volume 2, Chapter 5 for notification, cancellation, and additional conditions for holding credit balances.) In any event, you must pay any remaining balance on loan funds by the end of the loan period for which the funds were awarded.

Late Disbursements
See 34 CFR 668.164(g) for Cash Management rules; 34 CFR 682.604(e) for FFEL

LATE DISBURSEMENTS

The late disbursement rules apply to all of the SFA programs, but we will review them here in the context of the Stafford and PLUS loan programs.

If the student withdraws or is no longer enrolled **at least half-time** when the school receives the loan funds, the school may still use the Stafford or PLUS funds to pay the borrower, if all of the following are true:

- The student became ineligible solely because of the change in enrollment status,

- Before the date the student became ineligible, the school received an *Institutional Student Information Record* (ISIR)or *Student Aid Report* (SAR) with an official EFC,

- The school must have created a complete, electronic loan origination record or certified the FFEL application while the student was enrolled and eligible, and

- for a first-time first-year undergraduate student subject to the 30-day delayed disbursement rule, the student must have completed the first 30 days of the loan period for which the loan was made.

To receive a late second or subsequent disbursement of a Stafford Loan, the student must have graduated or successfully completed the period of enrollment for which the loan was intended.

A school must make the late disbursement no later than 90 days after the date that the borrower became ineligible for the loan. The

Return of Undisbursed FFEL Funds
See 34 CFR 668.167(b)

loan disbursement is based on the educational costs the student incurred while enrolled **at least half-time** and eligible for the loan.

If the lender provides the Stafford or PLUS funds after the end of the period of enrollment for which the loan was made, a late disbursement can only be made if it is the first disbursement of the loan, and comes with a notice from the lender stating that it is a late first disbursement.

If the student is not eligible for a late disbursement, the school has 30 days to return the Stafford or PLUS funds to the lender.

In some cases, the late disbursement rules overlap with the requirements for the Return of Title IV Funds. If the student has completely withdrawn from school within the first 60% of the payment period and the rules for Return of Title IV Funds apply, you must first use the late disbursement procedures to determine the SFA funds that the student *could have received.* (See Volume 2, Chapter 6 for information on how to calculate the Return of Title IV Funds.) If the student drops below half-time or withdraws after the 60% point in the payment period, then *only* the late disbursement procedures apply.

TIME FRAMES TO DISBURSE LOAN FUNDS OR RETURN THEM

The Cash Management regulations (34 CFR 668.167) establish specific time frames for schools to disburse FFEL Program funds or return the funds to the lender. In the Direct Loan Program, the school takes on a greater role with respect to the management of loan funds—for a detailed discussion of Direct Loan procedures, please see the *Direct Loan School Guide.*

For purposes of the cash management regulations and this discussion, returning funds "promptly" means that a school may not delay initiating and completing its normal process for returning FFEL Program funds to lenders. Also for these purposes, the requirement that a school "return funds no later than" a certain number of days means that a school must mail a check or initiate an EFT of FFEL funds to the lender by the close of business on the last day of that period.

Time frames for disbursing FFEL funds received from lender

When a school receives FFEL Program funds from the lender by *EFT or master check,* the school usually must credit the student's account or issue a direct payment to the eligible student (or parent borrower) within three (3) business days. If the FFEL lender provided the loan funds through a check requiring the endorsement of the student (or parent), the school must disburse those funds to eligible students (or, for PLUS Loan funds, to parents of eligible students) no later than 30 calendar days after the school receives the funds.

Sometimes the school receives the loan funds at a point when the student is temporarily not eligible for payment—for instance, if the student needs to complete the clock hours or credit hours in the previous payment period (for an academic program without terms). A school has an additional 10 business days to pay the borrower if the student is ineligible for payment within the normal disbursement period (described above), but is expected to become eligible for payment within the additional 10 business days. In effect, this means that the school can wait 13 days after receipt of the EFT or master check (40 days for a check requiring endorsement) to pay a student who is expected to regain eligibility during this 10-day window.

Previous time-frame for payment to the borrower

If a school received FFEL program funds from a lender via EFT or master check after July 1, 1997, but before July 1, 1999, the school was required to disburse those funds to the eligible borrower no later than 10 business days after the school received the funds.

Verification extension

If you chose to certify or originate a Stafford Loan for a student who was being verified, the verification regulations allow you to hold the loan proceeds for 45 days. If the applicant does not complete the verification process within the 45 day period, you must return the loan funds to the lender.

If the student's eligibility was reduced as a result of verification, you may pay the full disbursement if the excess amount can be eliminated by reducing subsequent disbursements for the applicable loan period (you must advise the lender to reduce the subsequent disbursements). If the excess funds cannot be eliminated in subsequent disbursements for the applicable loan period, the excess funds must be returned to the lender. (34 CFR 668.58 Interim disbursements, 20 U.S.C. 1094)

Time frame for returning undisbursed FFEL loan funds

For FFEL Program funds that a school does not disburse by the end of the initial or conditional period, as applicable, the school must return those funds to the lender promptly but no later than 10 business days from the last day allowed for disbursement (above). However, if a student becomes eligible to receive FFEL program funds during the return period, the school may disburse those funds provided that the disbursement is made on or before the last day of the return period.

Proration of loan fees for returned FFEL funds

If a school returns an FFEL disbursement or any portion of an FFEL disbursement to a lender, the origination fee and insurance premium are reduced in proportion to the amount returned. If a student returns an FFEL disbursement or any portion of an FFEL disbursement to the lender, the origination fee and insurance premium are reduced in proportion to the amount returned only if the lender receives the returned amount within 120 days after disbursement.

For more information on how returning Direct Loans affects loan fees and accrued interest on loans, see the *Direct Loan School Guide.*

Following up: After the Loan Is Made

CHAPTER 7

After a loan is disbursed, you still may have to make adjustments or even notify the lender that the borrower was ineligible for the loan. Another important requirement is to report enrollment status for your students who have loans, which may qualify them for deferment.

CHANGES IN LOAN AMOUNT AND OVERAWARDS

You may find that a student's eligibility for a Stafford loan or for the subsidized amount of a loan has changed after the first disbursement is made. For instance, the student may have updated his/her dependency status, becoming eligible for the higher loan limits for independent students.

On the other hand, the student's eligibility might decrease for a number of reasons, including an increase in the EFC. If a student withdraws from classes (but remains enrolled at least half-time) the reduction in costs may affect the student's loan eligibility. The student might receive a scholarship after the original EFA was determined and the loan certified.

If the student's aid package exceeds need after recalculating for changes to cost, EFC, or EFA, the excess aid is considered an overaward. If you discover the overaward before the loan is completely disbursed, you must eliminate the overaward by cancelling or reducing the Stafford Loan, and/or reducing other aid in the student's package, as necessary.

In a term program, the student may choose not to enroll in one of the terms in the loan period. In this case, the student will not be eligible to receive the disbursement for that payment period. Under a Scheduled Academic Year, the overall loan amount will be reduced by the amount of the disbursement that was not made. However, if a Borrower-Based Academic Year is used, the overall loan amount may not change if the student is paid for additional payment periods that can be included in the loan period.

You have a great deal of flexibility in changing the loan amount and disbursements during the loan period. Check with the lender for its procedures for making adjustments to the loan amount. For Direct Loans, see the *School Guide,* "Change Records and Loan Adjustments."

Overaward tolerance for FWS

A $300 overaward tolerance is permitted if the student's financial aid package includes a Stafford Loan plus Federal Work-Study (FWS). If there is no FWS in the student's financial aid package, no tolerance is allowed under FFEL.

Effect of missed term on loan amount

A student may not receive the full amount that the school originally certified if he/she misses one of the terms in a Scheduled Academic Year. For instance:
**Barbara G is awarded a $2625 Stafford for 3 quarters based on a cost of $9,000. After a 3% loan fee is deducted, she receives $848.75 for the fall quarter. Barbara misses the winter quarter, but the financial aid office notifies the lender that Barbara plans to return for the spring quarter. She returns in the spring quarter and receives the expected $848.75. Thus, her total loan for the academic year is $1,750.*
** Note that if Barbara's costs for the two quarters are high enough, the school could also elect to pay her the full loan amount.*
** Barbara could also receive the full loan amount by attending the subsequent summer or fall term, if a Borrower-Based Academic Year is used.*

Leave of Absence vs. Withdrawals
In some cases, a student will temporarily withdraw from classes, but intend to return and complete the coursework. If the leave of absence meets the requirements of an "Approved Leave of Absence" in 34 CFR 668.22(d) and the student returns to resume his/her studies, no return of student aid funds is required.

In general, the regulations limit this provision to one leave of absence in a 12-month period, not to exceed 180 days. However, a subsequent leave of absence may be permissible, under certain documented circumstances (including jury duty, military reasons, and circumstances covered by the Family and Medical Leave Act of 1993).

If the student received more than the annual or aggregate maximum due to inaccurate information provided inadvertently, then the student can continue to receive SFA funds if he/she repays the excess amount or makes arrangements (satisfactory to the holder of the loan) to repay the excess amount. (34 CFR 668.35(b))

WITHDRAWAL OR LOSS OF ELIGIBILITY

If a school discovers that a student did not register for the period of enrollment covered by the loan or never established eligibility for the loan, there can be no late disbursement. The school must return the loan proceeds to the lender within 30 days of this determination. There are several scenarios in which a student can register for classes but fail to qualify for the loan: for instance, if the student does not begin attendance in any of his/her classes.

If you learn after loan funds are disbursed that the student or parent provided "false and erroneous" information, you must notify the lender (or Direct Loans) as soon as possible if the borrower was ineligible for all or a portion of the Stafford or PLUS loan. The lender (or Direct Loans) will send a demand letter to the borrower requiring repayment of the ineligible loan funds. If the borrower fails to repay the funds within 30 days after the letter is mailed, the entire loan may be placed in default. (See 34 CFR 682.412 or 685.211 for Direct Loans)

When an SFA recipient withdraws from all classes after establishing eligibility and receiving SFA funds, a portion of his or her aid may have to be returned. New procedures for calculating this return of funds have recently taken effect (October 7, 2000). See Volume 2, chapter 6 of the *SFA Handbook* for a complete discussion of the new provisions and their implementation. **This requirement is not the equivalent of a refund policy.** The SFA regulations do not dictate an institutional refund policy nor do they prohibit a school from developing its own refund policy or complying with refund policies required by outside agencies. Under the new requirements, a school must return unearned SFA funds as soon as possible, but no later than 30 days after the date the school determines the student withdrew. This new provision reduces the time frame from the previous 60 days to 30 days for FFEL schools to return unearned FFEL funds to the lender. (34 CFR 668.22 (j))

Schools are still required to provide students with the details of the school's refund policy in addition to providing information on the SFA program requirements for determining the amount of aid that will have to be returned to the SFA programs if the student withdraws.

EXCHANGING INFORMATION ON BORROWERS

Providing borrower information at separation

Within 60 days after the exit counseling session, the school must provide the guaranty agency (or for Direct Loans, the DL Servicing Center) that was listed in the borrower's student aid records with updated information about—

- the borrower's future permanent address;
- the borrower's Social Security Number;
- the identity and address of the borrower's expected employer;
- the address of the borrower's next of kin; and
- the borrower's driver's license number and state of issuance.

Completing the Student Status Confirmation Report

The Student Status Confirmation Report (SSCR) is used to update the National Student Loan Data System as to the enrollment status of students who borrowed Stafford Loans (or were the beneficiaries of a PLUS loan). This information is extremely important, because it is used to determine the student's eligibility for in-school deferments, and the date when the grace period begins.

The SSCR is not necessarily connected to loans made at your school — you also must report information for students who received some or all of their SFA loans at other schools.

At fixed times during the academic year, but at least semiannually, NSLDS sends SSCRs electronically or on tape to a school. Schools must update the information where necessary and return the SSCR within 30 days of receiving it.

Schools must report to National Student Loan Data System if the student:

- has ceased to be enrolled **at least half-time**;
- was accepted for enrollment at the school but did not enroll on at least a half-time basis for the period for which the loan was intended; or
- has changed her or his permanent address.

If a school does not expect to submit an SSCR within 60 days of becoming aware that any of the above information has changed for any student, the school must notify NSLDS within 30 days of becoming aware of the change.

Privacy: Sharing Student Records with Lenders

A student authorizes his or her school to release information to lenders by signing a statement as part of the loan application process. This authorization covers information relevant to the student's or parent's eligibility to borrow. Examples of such information are enrollment status, financial assistance, and employment records.

SSCR Requirements

34 CFR 682.610 FFEL
34 CFR 685.309 Direct Loans
Dear Colleague GEN-99-9
Dear Colleague GEN-96-5
Dear Colleague GEN-96-17

Loan information from the guarantor

Upon request, the guarantor must inform the school of students in default on FFELs ... 34 CFR 682.401(b)(24)

If the lender requests preclaims assistance, the guarantor must inform the school of this request, if the school has requested such notification ...
34 CFR 682.404(a)(5)
HEA § 428(c)(2)(H)

The guarantor must notify the school when a loan made at that school changes hands, if the school requests such information ...
HEA § 428(b)(2)(F)

For complete information on how to provide information through the SSCR, see the *SSCR User's Guide*, which is available on-line on the IFAP site (listed alphabetically under "Current Publications"). The *SSCR Technical Reference* is available in Word and PDF formats at:

http://www.sfadownload.ed.gov

An FFEL school that is fully operational in reporting SSCR data to the NSLDS is exempt from the requirement to provide SSCRs directly to guaranty agencies. However, the school must still respond to requests for borrower information from guaranty agencies, lenders, and loan servicers. The school must continue to provide loan holders and loan servicers with a borrower's enrollment status, enrollment history, or information needed to locate the borrower for deferment and other repayment purposes. This information includes last known address, change in surname, and employer's name and address.

Exchanging information about delinquency and default

To promote loan repayment, DL schools are encouraged to notify the Direct Loan Servicing Center if they receive new information about a delinquent borrower's location or employment. The Direct Loan Servicing Center sends participating schools a monthly electronic report of all delinquent and defaulted Direct Loan borrowers who took out loans while attending the school. The report, which contains the borrowers' names, addresses and phone numbers, is organized by number of days past due so that schools can contact and counsel borrowers to avoid default. The school may also wish to work with borrowers who have defaulted on their Direct Loans to help these borrowers bring their loans out of default.

An FFEL school may make agreements to provide the holders of delinquent loans with information about the delinquent borrower's location or employment. An FFEL school may also try to contact the borrower and counsel him or her to avoid default.

FFEL schools may request that a guaranty agency provide information about students who were enrolled at the school who have defaulted on their Stafford loans. The guarantor may not charge for this information. You may also request that the guaranty agency notify your school whenever a lender requests preclaims assistance on a loan made at your school, and provide the borrower's name address and Social Security Number. (The guaranty agency may charge a reasonable fee for this service.) Your school may only use the information to remind the borrower to repay his or her loan(s).

If you've requested it, the guaranty agency must also notify your school when loans to its students are sold, transferred, or assigned to another holder, (The notification must include the address and telephone number of the new loan holder.) This notification requirement only applies to loans that are in the grace period or in repayment, and only if your school was the last school the borrower attended before the loan entered repayment. (For instance, if a student received several Stafford loans while earning a bachelor's degree at your school, but pursued a master's degree at another school before those loans entered repayment, the guarantor is not required to notify you if the loan is sold.)

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