

# Applying for Stafford and PLUS loans

## CHAPTER 6

*This chapter explains the process of making a loan and describes what information is required of the student, parent, and school. There will be some variations from school to school, but this chapter discusses the requirements that are common to schools.*

### APPLYING FOR AID AND COMPLETING THE MPN

A student who wishes to receive a Stafford loan must complete a Free Application for Federal Student Aid (FAFSA) and a master promissory note (MPN). An MPN can be used to make multiple loans over several years.

In the traditional paper process, a student might complete a Stafford MPN at the school, or the school or ED might send the MPN to the student for his signature, and the school will originate the loan based on his acceptance of the aid package. If you receive the MPN, you must ensure that the information on it does not conflict with any other information you have for the student.

The electronic MPN (eMPN) is completed and signed, and the borrower is authenticated, on the student loans website (see the URL in the margin). Student and parent borrowers complete the eMPN for both Stafford and PLUS loans at the same site. A borrower who wishes to complete an eMPN must sign it electronically. If a school or borrower does not want an MPN signed electronically, a paper MPN is required.

Schools may offer borrowers the option of completing and signing an eMPN, but they may not require it. A borrower who wishes to complete a paper MPN must be given that option.

#### **Required borrower information on MPN**

The MPN collects identifying information for the borrower, including name, permanent address, date of birth, Social Security number, driver's license number, and two references with U.S. addresses. Some of this information may be preprinted on the MPN. The borrower must read, sign, and date the MPN.

### MULTI-YEAR MPN AND WHEN A NEW MPN IS REQUIRED

When used as a multi-year document, the MPN enables student and parent borrowers to get additional loans without signing a new MPN.

#### **Paper MPNs**

Copies of the Master Promissory Note are provided to borrowers and schools by the Department. Ordering instructions are on the ED Pubs website at <http://edpubs.ed.gov>.

34 CFR 685.402(f) and definition of master promissory note 34 CFR 685.102

MPN on the Web (eMPN)

<https://studentloans.gov/>

COD website

<https://cod.ed.gov/cod/LoginPage>

For your reference, sample copies of the MPN and related materials are available online:

<http://www.direct.ed.gov/mpn.html>

#### **A note on nomenclature**

The types of loans that are available under the Direct Loan Program were also available under the Federal Family Education Loan (FFEL) program: subsidized and unsubsidized Stafford loans for students, PLUS loans for parents and graduate/professional students, and consolidation loans. In the Direct Loan Program, subsidized and unsubsidized Stafford loans are known as Direct Subsidized and Direct Unsubsidized Loans. To be concise, these will be referred to as just Stafford loans in this chapter.

### Power of attorney and completing the MPN

A third party with power of attorney for the borrower may sign the promissory note if the borrower is unable to sign. Use of a power of attorney when signing an MPN limits the use of the MPN to one loan. If the borrower submits his or her MPN through the school, the school must retain a copy of the original power of attorney and submit a copy with the MPN to the loan holder. A photocopy or a fax of the power of attorney is acceptable.

If the note is signed with a power of attorney, the student must authorize the school in writing to credit the loan funds to his or her account at the school. In addition, the school must pay any remaining credit balance to the student.

See *Volume 3* for further discussion of ED approval needed to use a power of attorney for disbursements.

### Consumer information for the borrower

Borrowers need to be fully advised on the costs and responsibilities of borrowing. Accordingly, the law requires that the borrower receive the following information:

1. At the same time as the MPN, a borrower's rights and responsibilities statement.
2. At or prior to the first disbursement, a disclosure statement with specific information about that borrower's loans (usually provided by ED).
3. For any subsequent loans provided under an existing MPN, a plain language disclosure (PLD) provided by ED. (The PLD is an abbreviated version of the borrower's rights and responsibilities Statement that was provided with the MPN.)

Some of this information should be reviewed with the borrower as a part of entrance and exit counseling (see *Volume 2: School Eligibility and Operations*).

These circumstances require a borrower to complete a new MPN:

- The borrower transfers to a school that is not eligible to use, or chooses not to use, the multi-year feature of the MPN.
- The borrower only previously borrowed under the FFEL program using a FFEL MPN.

Borrowers may request an annual MPN or that no additional loans be made using their current multi-year MPN. The latter request must be in writing.

In some cases a new MPN has to be executed because the maximum period for use of the MPN has expired. Additional loans may no longer be made under an MPN after the earlier of:

- the date ED or the school receives the borrower's written notification that no further loans be made;
- the end of the 12-month period after the date ED received the MPN if no disbursement is made during that time; or
- ten years after the date ED received the MPN. If a portion of a loan is made on or before the 10-year limit, remaining disbursements of that loan can be made.

Although the Direct Loan Program regulations allow the second and third expiration conditions to be based either on the date the borrower signed the MPN or the date ED receives the MPN, the COD system currently uses the date the MPN is received.

### The confirmation process

With a multi-year MPN, the confirmation process is crucial. It may be part of the required notifications discussed in *Volume 4*, or it may be a separate process.

Confirmation helps the student or parent maintain control over borrowing; a student borrower must accept, either actively or passively, the loan amount offered.

- Active confirmation—a school does not disburse the loan until the borrower affirmatively requests or accepts the proposed loan type and amount or requests changes to the loan package.
- Passive confirmation—a school does not disburse the loan until the borrower is notified of his proposed loan package and the time given him to respond has elapsed. The borrower only needs to take action if he wants to decline the loan or make adjustments to the type or amount of the loan.

For example, your school's award letter may be used as part of either an active or passive confirmation. For active confirmation, the borrower would be asked to confirm the loan amount offered by responding to your school's offer. For passive confirmation, the borrower would be asked to respond only if she wanted to cancel or reduce the loan amount offered.

### ***Declining the use of the multi-year MPN***

Schools are not required to use the multi-year feature of the MPN. You may decide that you want some or all of the borrowers at your school to sign a new MPN each year. If you don't want to use the multi-year feature for any of your students, contact the COD School Relations Center.

Student loan borrowers may decline to use the multi-year feature of the MPN. Borrowers may also cancel authorization for subsequent loans to be made under an MPN after the first loan is made by notifying the school in writing. Borrowers may send their written notification to their servicer or to their school to forward to COD. The effective date is the date the school, COD, or the servicer receives the written cancellation request. If the borrower cancels the multi-year authorization on a loan that is not completely disbursed, the school may make remaining disbursements on existing loans unless the borrower tells the school to cancel or adjust the disbursements. To obtain additional loans, the borrower will need to complete a new MPN.

### **PLUS MPN**

Parents and graduate/professional students apply for a PLUS loan by completing the PLUS application and master promissory note. All students who receive PLUS funds must complete a FAFSA, whether they are graduate student PLUS borrowers or dependent undergraduates who will receive the funds via their parents. All PLUS borrowers must receive the Borrowers' Rights and Responsibilities Statement with the loan application.

At U.S. domestic schools a parent may obtain for a dependent student additional PLUS loans based on the original MPN for up to 10 years after the date the parent first signed it, as discussed in the previous section on the multi-year use of the MPN. A separate PLUS MPN is required for each dependent student or if both parents want to borrow individually on behalf of the same student. A new PLUS MPN would be required under the conditions discussed in the section on when a new MPN is required. A graduate or professional student PLUS borrower may also obtain additional loans under the original MPN for up to 10 years after the date it was signed.

If a graduate or professional student PLUS borrower is also a parent who is borrowing a PLUS loan for one or more dependent students, she must sign one MPN for herself and a separate MPN for each dependent student.

Both parent and student PLUS borrowers may choose to sign a new MPN for each loan even if that would not otherwise be required. A school may require a new MPN for each PLUS loan.

### ***Establishing graduate/professional PLUS eligibility***

Before originating a PLUS loan application for a graduate or professional student, a school must determine her eligibility for a Stafford loan. If the student is eligible for a Stafford loan but has not requested the maximum amount she can receive, the school must notify her of that and give her the opportunity to request the maximum amount. The school must also provide the student with a comparison of:

### **Using the MPN for multiple loans within an academic year**

Note that the MPN may be used to make multiple loans within the same academic year. Even schools that are not authorized or choose not to use the multi-year feature of the MPN can make more than one loan under an MPN within the same academic year.

### **PLUS MPNs for graduate and professional students**

Graduate and professional students who want to complete a Direct PLUS MPN electronically should sign in under "Manage My Direct Loan" on the left-hand side of the homepage for the Student Loans website (<https://studentloans.gov>).

**PLUS borrowers**

Unless otherwise noted, “PLUS borrower” refers to both parents and graduate/professional students who borrow PLUS loans.

- the maximum interest rate for Stafford and PLUS loans;
- the periods when interest accrues on Stafford and PLUS loans; and
- when Stafford and PLUS loans enter repayment.

A graduate or professional student is not required to accept a Stafford loan as a condition for receiving a PLUS loan, nor can a school require that.

Unless the borrower has received a FFEL or Direct PLUS loan before, a school must conduct initial loan counseling prior to the first disbursement of a graduate/professional PLUS loan. Loan counseling requirements do not apply to parent PLUS borrowers.

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**Foreign schools and the multi-year MPN**

Foreign schools are not currently authorized to use the multi-year feature of the MPN for either Stafford or PLUS loans. A new MPN is required for each academic year.

***PLUS loan origination***

Because a parent or graduate/professional student may borrow up to the student’s cost of attendance minus other estimated financial assistance for the loan period, it is important that the borrower specify how much he wants to borrow. A PLUS loan may not be made for more than what the borrower requests.

Your school must collect this information before originating the PLUS loan and may use various means such as a borrower response section on your financial aid award letter, a separate PLUS form, documented telephone or electronic requests, or other means.

You must establish and document how the PLUS borrower’s loan amount request will be collected. You also must maintain a record of any requests (written, electronic, or by phone) from the borrower for any adjustment to the loan amount.

The Direct PLUS Loan Request feature on the StudentLoans.gov website allows borrowers, both parents and graduate/professional students, to request a PLUS loan and initiate a credit check. It can take the place of a school-based process. Borrowers can request the amount that they wish to borrow or choose to have the school determine the maximum amount they are eligible to receive. This process is optional; schools can choose not to allow it or to allow it for parent or student borrowers only. But a school using this process will meet the active confirmation requirement. See the electronic announcement dated 4/23/10 on the IFAP website for more information.

Before originating a parent PLUS loan, you must determine the FSA eligibility of the dependent student for whom the parent is borrowing, and you must obtain the student’s complete financial aid history. A parent may not take out a PLUS loan when the student is ineligible for FSA funds or when the parent herself is ineligible. Also, when originating a parent PLUS loan, you must certify the student’s enrollment status and anticipated completion/graduation date.

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**Determination of Stafford eligibility required**

34 CFR 685.301(a)

Your school must confirm the student’s dependency status when determining whether a parent is eligible to borrow under the PLUS Program or the dependent student is eligible for additional unsubsidized Stafford loan limits.

If your school uses the multi-year PLUS MPN, the borrower's PLUS loan request for subsequent years is sufficient documentation to make additional loans, but the borrower's PLUS loan amount request must be secured for each loan made using an MPN. Schools using the PLUS loan MPN as a multi-year note are required to have an active confirmation process.

### ***Adverse credit history and use of endorser***

To borrow a PLUS loan, a person must not have an adverse credit history, but if he has such a history, he may still receive a PLUS loan by using an endorser who does not have an adverse credit history. In these cases a separate endorser addendum is required for each PLUS loan. Any loan that requires an endorser must be made under a new PLUS MPN with a new endorser addendum because the endorser is liable only for the specific loan or loans she agrees to endorse. The addendum includes the requested loan amount; if the parent borrower wants to increase that amount, the endorser must approve it, and it requires a new MPN and endorser addendum.

### ***Establishing a confirmation process***

As long as schools follow the regulations and the Department's guidelines, they have the discretion to establish their own confirmation process, including the timing of confirmation. For example, confirmation could take place when students apply for aid, when aid is packaged, when loan funds are disbursed, or at some other appropriate time. A school could combine elements of active and passive confirmation. The confirmation process could cover the entire loan for the academic year or loan period or, instead, could require that the student confirm each loan disbursement. DCL GEN-98-25 provides examples of each of these confirmation approaches.

Effective processes will vary, and schools are encouraged to test and use different technologies, which can include the Internet, e-mail, card technologies, and voice response.

Generally a school should use the same confirmation process for all borrowers, but it may want to establish more than one process to accommodate existing administrative procedures or because the school believes it can best inform borrowers of their loan obligations if it uses different confirmation processes for different groups of students. For example, a school could require active confirmation for undergraduate students and passive confirmation for graduate students.

Schools must document whatever process(es) they use. They must retain a description of the process(es) in effect for each academic year in which they make second or subsequent loans under MPNs. Documentation of a process can be in paper or electronic format and need not be kept in individual borrower files. 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(es) in their student consumer information just as they do for other school policies, such as refunds and academic progress.

## **Initial PLUS loan counseling required**

34 CFR 685.304(a)(2)

### **Adverse Credit History**

When determining whether a borrower is ineligible for a PLUS Loan based on an adverse credit history, the Department obtains a credit report on the borrower from at least one national credit bureau. Adverse credit is defined in the regulations as the applicant being 90 days or more delinquent on a debt or having been subject in the last five years to a default determination, bankruptcy discharge, foreclosure, repossession, tax lien, wage garnishment or write-off of an FSA debt. The absence of any credit history is not considered adverse credit.

## **Increased unsubsidized Stafford for independent students and dependent students whose parent can't get PLUS**

If at least one of a dependent student's parents has not been able to borrow a PLUS loan, the student may be eligible for higher unsubsidized Stafford borrowing limits. See *Volume 3, Chapter 4*.

