

May 2000

CB-00-07

SUMMARY: This letter provides information about an Addendum to the National Direct Student Loan (NDSL) and Federal Perkins Loan Program Promissory Notes to reflect the 1998 Amendments to the Higher Education Act.

FEDERAL STUDENT FINANCIAL AID HANDBOOK REFERENCE: This letter supplements the information contained in Part 2 of the Campus-Based Program Section of the 1999-2000 Student Financial Aid Handbook

Dear Partner:

Enclosed please find an Addendum to the NDSL and Federal Perkins Loan Program promissory notes that reflects the changes made to the Federal Perkins Loan Program by the Higher Education Amendments of 1998 (the 1998 Amendments). The Addendum is intended for immediate use in conjunction with the existing NDSL and Federal Perkins Loan promissory notes contained in Dear Colleague letters CB-93-9 and CB-96-8 and must be used without any changes by all institutions.

Final regulations incorporating the changes to the Federal Perkins Loan Program resulting from the 1998 Amendments were published on October 28, 1999. As noted in the preamble to the final regulations, the promissory notes contained in CB-93-9 and CB-96-8 are legally valid documents. The absence of the Addendum or a new promissory note did not negate a school's responsibility to comply with the program changes resulting from the 1998 Amendments, nor did the lack of an Addendum or new note affect a borrower's entitlement to these benefits.

Until the Department of Education (the Department) develops and distributes new promissory notes that include these provisions, schools must provide a copy of the attached addendum with a copy of the promissory note for all loans made on or after August 1, 2000. For Perkins Loans or NDSLs made on or after October 7, 1998 until August 1, 2000, schools should provide a copy of the Addendum to all borrowers in order to inform borrowers of the new borrower benefits. The Department is not prescribing to schools the timing or method for providing the Addendum to this group of borrowers. Schools may wish to consider mailing the Addendum, distributing it during exit interviews, inserting it in billing notices for those borrowers already entering repayment, or other methods.

If you have any questions regarding the Addendum to the NDSL and Federal Perkins Loan Program promissory notes, please contact Vanessa Freeman at (202)708-8242 or Vanessa_Freeman@ed.gov Brian Smith at (202)708-8242 or Brian_Smith@ed.gov.

Sincerely,

Jeff Baker
Division Director
Program Development Division
Office of Student Financial Assistance

Enclosures

Enclosure A
A D D E N D U M

The Higher Education Amendments of 1998, signed into law on October 7, 1998, changed the terms of Federal Perkins Loans and National Direct Student Loans authorized under Part E of the Higher Education Act of 1965.

YOU ARE RECEIVING A LOAN THAT MUST BE REPAYED

CHANGES AFFECTING FEDERAL PERKINS LOANS AND
NATIONAL DIRECT STUDENT LOANS (NDSLs)

GRACE PERIODS:

For the purpose of establishing the beginning of your repayment period if you are a National Direct Student Loan (NDSL) or a Federal Perkins Loan borrower, the six month initial grace period for NDSLs and the nine month initial grace period for Federal Perkins Loans excludes any period during which you are a member of a reserve component of the Armed Forces named in section 10101 of Title 10, United States Code, and you are called or ordered to active duty for a period of more than 30 days. Any single period excluded from your grace period may not exceed three years and includes the time necessary for you to resume enrollment at the next available regular enrollment period. You must notify the school that made your loan of the beginning and ending dates of your service, and the date you resume enrollment. If you have an NDSL or Federal Perkins Loan and are in your initial grace period when called or ordered to active duty, you are entitled to a new six or nine month initial grace period upon completion of the excluded period.

CLOSED SCHOOL DISCHARGE:

If you received an NDSL or Federal Perkins Loan on or after January 1, 1986, the holder of your loan is authorized, under certain conditions, to discharge your total liability, including refunding any amounts you have already paid on the loan, if you were unable to complete the program in which you were enrolled due to the closure of the institution.

LOAN REHABILITATION:

If you default on your NDSL or Federal Perkins Loan, you may rehabilitate your defaulted loan by requesting the rehabilitation and by making an on-time, monthly payment, as determined by the loan holder, each month for twelve consecutive months. If you successfully rehabilitate your defaulted NDSL or Federal Perkins Loan, you will again be subject to the terms and conditions and qualify for the benefits and privileges of your original promissory note and the default will be removed from your credit history. You can rehabilitate a defaulted NDSL or Federal Perkins Loan only once.

STUDENT LOAN OMBUDSMAN:

If you dispute the terms of your NDSL or Federal Perkins Loan in writing and the holder of your loan is unable to resolve the dispute, you may seek the assistance of the Department of Education's Student Loan Ombudsman. The Student Loan Ombudsman will review and attempt to informally resolve your dispute and may be reached at 1-877-557-2575.

CHANGES AFFECTING NATIONAL DIRECT STUDENT LOANS
(NDSLs)

CANCELLATION FOR VOLUNTEER SERVICE:

Upon making a properly documented request to the holder of your loan, you are entitled to have up to 70% of the original principal loan amount of your NDSL canceled for qualifying service performed after you receive the loan as a volunteer under The Peace Corps Act or a volunteer under The Domestic Volunteer Service Act of 1973 (ACTION programs).

For each complete year of service under the Volunteer Service Cancellation provision, a portion of your loan will be canceled at the rate of 15% of the original principal loan amount for the first and second 12-month period of service and 20% of the original principal loan amount for the third and fourth 12-month period of service.