

# Borrower Eligibility for DL/FFEL

*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. 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*.

## BORROWER ELIGIBILITY ISSUES:

- ➔ Preparatory coursework eligible for loans
- ➔ Subsidized and unsubsidized Stafford loans
- ➔ Determining financial need
- ➔ NSLDS and transfer eligibility
- ➔ Parent borrower eligibility
- ➔ School can refuse to originate/certify a loan
- ➔ FFEL lender of last resort
- ➔ Loan fees

## 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.

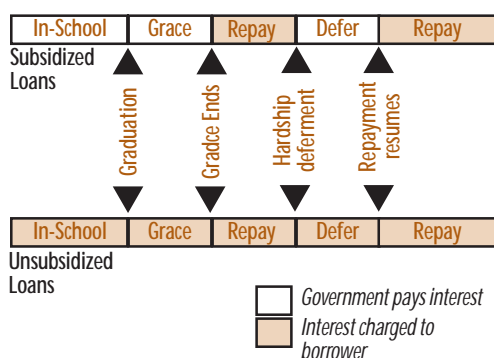
- **Undergraduate preparatory work.** A student may apply for a Stafford Loan for up to 12 months of coursework taken in a single consecutive period if the school has documented that the coursework is necessary in order for the student to enroll in an undergraduate degree or certificate program. This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

### 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.)

### Sub and unsub loans

The federal government pays the interest on subsidized Stafford Loans while the borrower is in-school, in the 6-month grace period, or in deferment.



For example, let's say that Holly takes out both subsidized loans and unsubsidized Stafford loans while going to Vincent College. After the 6-month grace period, Holly begins repaying her loans. After 3 years of repayment, she joins the Peace Corps and qualifies for an economic hardship deferment. She serves in Peace Corps for 2 years and resumes repaying her loans, making the last payment 7 years later.

Note that different amounts of interest accrue on loan disbursements made on different dates. If Holly receives \$1,000 Stafford loan disbursements on September 10 and January 10 of her first year of college, the first disbursement will accrue interest for four months before interest begins to accrue on the second disbursement.

The difference in accrued interest is even more pronounced between disbursements made in different years of study. If Holly completes her program in four years, her first unsubsidized loan disbursement will have been accruing interest for over 4 years when she enters repayment, while her last disbursement may only have accrued interest for 10 months.

- **Graduate/professional preparatory work.** A student may apply for a Stafford Loan for up to 12 months of coursework taken in a single consecutive 12-month period if the school has documented that the coursework is necessary in order for the student to enroll in a graduate or professional program. 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.
- **Coursework required for teacher certification.** A student with a baccalaureate degree who is taking coursework necessary for a credential or teacher certification at the elementary or secondary level may apply for a Stafford Loan. 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 based on need for a subsidized Stafford Loan may apply for an unsubsidized Stafford Loan, which is not based on need. 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 EFC and any unmet financial need (up to the annual loan limit).

An **unsubsidized** student loan does not qualify for the interest subsidy that the federal government pays on a subsidized loan during in-school, grace, and deferment periods. 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.

In most cases, the interest that accumulates on an unsubsidized loan will be capitalized and added to the principal balance. A student can reduce interest costs on the loan by continuing to pay make monthly interest payments during periods when the repayment of principal is deferred (in-school, grace, and deferment).

## DETERMINING FINANCIAL NEED

Basically, a student's need for a **subsidized** Stafford Loan is his or her cost of attendance minus the Expected Family Contribution, and 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—in this case the cost for one semester would be one-half the cost for a full 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 Department's application processing system, and provided to your school as a part of the ISIR.

### Estimated Financial Assistance

The student's **estimated 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 estimated financial assistance that reduces the student's overall financial need. When certifying a loan, you have to subtract the student's estimated financial assistance 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, work, or loans that are awarded on the basis of postsecondary enrollment. But there are two noteworthy

### Cost of Attendance

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

### Maximum for Subsidized Stafford:

$$\begin{array}{r} \text{Cost of Attendance} \\ - \text{Expected Family Contribution} \\ - \text{Estimated Financial Assistance} \\ \hline = \text{Maximum Loan Amount} \end{array}$$

### Maximum for Unsubsidized Stafford and for PLUS:

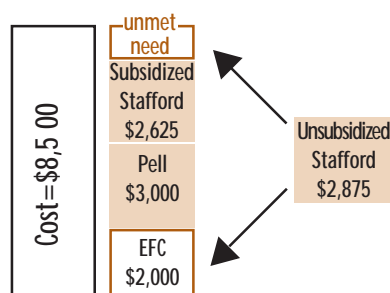
$$\begin{array}{r} \text{Cost of Attendance} \\ - \text{Estimated Financial Assistance} \\ \hline = \text{Maximum Loan Amount} \end{array}$$

### Example of combined subsidized and unsubsidized Stafford

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 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.

**Offsetting the EFC Example:**

Holly enrolls at Vincent College as a 1st-year independent student with an \$8,500 cost of attendance and an EFC of \$2,000. She is receiving a \$3,000 Pell Grant and the maximum \$2,625 subsidized Stafford Loan.



Since unsubsidized loans can replace the EFC, Holly is eligible for \$2,875 in unsubsidized Stafford Loan funds. (Her EFC of 2,000 plus unmet need of \$875.)

Note that the school can add the loan fees on a Stafford or PLUS loan to Holly's cost of attendance. If the lender is deducting the full 4% in guaranty and origination fees, then the school can add \$220 in loan fees to the Holly's cost of attendance. Based on the increased cost in this example, Holly would be eligible for an unsubsidized Stafford of \$3,095.

government programs that are treated a little differently.

**Montgomery GI Bill 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 estimated financial assistance for subsidized Stafford Loans. However, you *do* include these benefits in the estimated financial assistance 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. These loans are:

- 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 find out whether the student is eligible for certain other SFA programs that would reduce the need for borrowing.

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 same amount borrowed as 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 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.

## 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 who has remarried (i.e., the student's stepparent) 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.

### Parent Eligibility for PLUS

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

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 grant or 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 a Stafford or PLUS, he or she must reaffirm any loan amount on which collection activity has ceased, in the same way that is described in 34 CFR 682.201 (a) (4) for student borrowers. If the parent had a prior Stafford 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



**Authority to refuse to originate/  
certify a loan**

FFEL—34 CFR 682.603

Direct Loans—34 CFR 685.301

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 can qualify for a PLUS Loan by securing an endorser who doesn't have an adverse credit history. 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 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.

A student whose parent cannot obtain a PLUS loan is eligible for increased annual Stafford loan limits, as described in the next chapter.

## **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, income, or selection of a particular lender or guaranty agency. You must notify the borrower in writing of the reason for the decision, and keep documentation supporting the decision in the student's file.

## **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.

## List of Guaranty Agencies

SFA maintains a current listing of guaranty agencies on the Web at:  
[www.ed.gov/offices/OPE/guaranty.html](http://www.ed.gov/offices/OPE/guaranty.html)