
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 and between the FFEL and Direct Loan programs, but this chapter discusses the requirements that are common to schools and the loan programs.

APPLYING FOR AID & 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). Depending on the loan program, she may obtain an MPN from a school, a lender, guaranty agency, or ED. An MPN can be used to make multiple loans over several years of borrowing.

In the traditional paper process, a student might complete a Stafford MPN at the school and submit it to the lender or school. In other cases, the school certifies or originates the loan based on the student's acceptance of the aid package. The lender, the school, or ED sends the MPN to him for his signature. Regardless of the method used, the *Borrowers' Rights and Responsibilities Statement* must be provided to the student with the MPN. Also, if you receive the MPN, you must ensure its accuracy based on the information you have available.

Schools may also offer borrowers the option of completing and signing an electronic MPN, but they may not require borrowers to use an electronic MPN. A borrower who wishes to complete a paper MPN must be given that option. In most cases the promissory note will be completed through a website, and the site owner is responsible for authenticating the borrower and obtaining the borrower's electronic signature. In the Direct Loan Program, schools can opt out of the electronic MPN process or choose that ED only accept electronic MPNs. These options can be set on the eMPN website. Student and parent borrowers can complete the MPN for Direct Stafford and PLUS loans at <http://dlenote.ed.gov>.

If your school participates in the FFEL program, you should make arrangements with participating lenders or another intermediary (such as a guarantor website or Education Loan Management Resources) for the receipt of electronic documents.

In the FFEL program, electronic completion of the MPN does not always include electronic signatures. A school or borrower may demand a "wet" signature even if the MPN is otherwise completed

Paper MPNs

Copies of the Master Promissory Note are provided to borrowers and schools by lenders and guarantors (for FFEL) or the Department (for Direct Loans). Ordering instructions for Direct Loan schools are on the ED Pubs website at <http://edpubs.ed.gov>.

FFEL: 34 CFR 682.401(d)
DL: 34 CFR 685.402(f) and definition of master promissory note 34 CFR 685.102

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

FFEL Stafford Loan and addenda
<http://ifap.ed.gov/dpcletters/FP0608.html>
<http://ifap.ed.gov/dpcletters/FP0802.html>
Direct Stafford and PLUS loans
<http://www.ed.gov/DirectLoan/mpn.html>
DL MPN on the Web
<http://dlenote.ed.gov>

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 balance to the student for living expenses.

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.

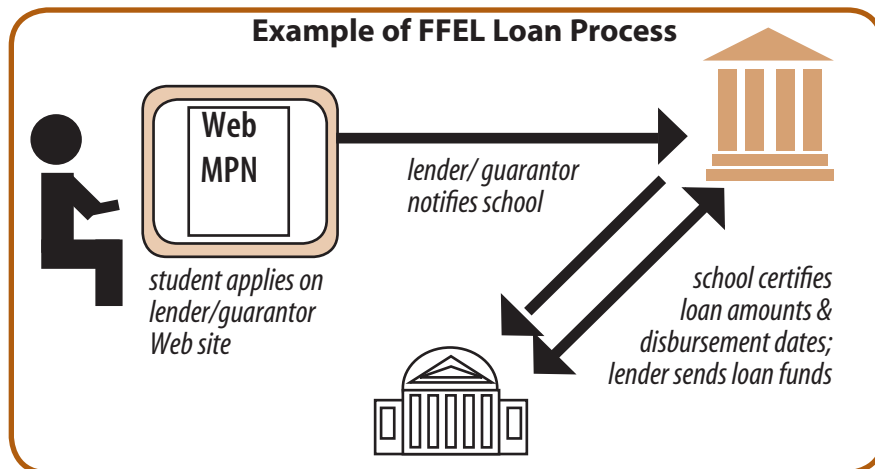
Accordingly, the law requires that the borrower receive the following information:

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 the lender or by ED).
3. For any subsequent loans provided under an existing MPN, a Plain Language Disclosure (PLD) provided by the lender or ED. (The PLD is an abbreviated version of the Borrower's Rights and Responsibilities Statement that was provided along 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).

electronically. In the Direct Loan Program, a borrower who wishes to complete an electronic MPN must sign the MPN electronically. If a school or borrower does not want an MPN signed electronically, a paper MPN is required.

If a borrower is completing and signing the promissory note on the Web using the Department's PIN or an alternate signature process provided by the intermediary's website, the borrower's rights and responsibilities statement must be included in the process. In most cases the intermediary operating the website will notify you when a student completes the promissory note online and designates your school.



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.

In completing the FFEL MPN, the borrower must also provide the name of a lender. As a convenience, many schools give their borrowers a list of lenders who make loans to students at the school. **However, a borrower has the right to choose her lender, even if that lender is not one that the school previously used, and a school may not refuse to certify a loan based on a borrower's choice of lender or guarantor.**

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.

There are several circumstances that require a borrower to complete a new MPN. It is required if the borrower's FFEL lender changes, unless the change is a result of a merger or acquisition. A new MPN is also required in certain transfer situations where:

- 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 transfers from an FFEL school to a Direct Loan school, and there's no valid Direct Loan MPN on file with ED. Similarly, a borrower needs a new MPN if transferring from a Direct Loan to an FFEL school, unless there is a valid MPN on file with the lender that the borrower uses. (New MPNs are also required if the school itself changes from using DL to FFEL or vice versa.)
- a school's lender requests that a school no longer use the multi-year feature of the MPN.

Also, borrowers may request an annual MPN, or may request that no additional loans be made using their current multi-year MPN. Requests that no additional loans are made using current multi-year MPNs 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. At Direct Loan schools, 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;
- if no disbursement is made during the 12-month period after the date ED received the MPN; 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.

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.

Lenders declining loans

An FFEL lender is prohibited from discriminating against an applicant on the basis of race, national origin, religion, sex, marital status, age, or disability. However, a lender may decline to make loans to students who do not meet the lender's credit standards, 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 also decline to make FFELs for less than a specified amount, for example, \$500.

Special notes about Direct PLUS MPNs for graduate/professional borrowers:

Graduate and professional student borrowers completing a Direct PLUS master promissory note (MPN) electronically should select ***Complete New MPN for Student Loans*** on the left-hand side of the page on the Direct Loan eMPN website (www.dlenote.ed.gov) then choose the Graduate PLUS option.

Graduate and professional borrowers completing a paper Direct PLUS MPN do not have to complete the U.S. Citizenship Status box, Question 7, in Section A of the form.

Lender of Last Resort

A student who is otherwise eligible for a subsidized Stafford loan and, after not more than two rejections, who has been unable to find an FFEL lender willing to make such a loan, should contact the guaranty agency in his state of residence or the guaranty agency in the state in which his 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, and it is not 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.

Lender of last resort

34 CFR 682.401(c)

FFEL lender/guarantor approval

The lender or guarantor will match the information included by the school on the certification (electronic or paper) to the MPN by comparing the borrower'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 borrower's cost of attendance, EFC, and estimated financial assistance 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 a borrower transfers to an eligible foreign 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 each loan at the new school.

At FFEL Program schools, additional loans may not be made under an MPN after the earlier of:

- the date the lender receives the borrower's written notification that no further loans be made;
- if no disbursement is made during the 12-month period after the date the borrower signed the MPN; or
- ten years from the date the student signs 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.

The confirmation process

A crucial step in multi-year use of the MPN is the confirmation process. Confirmation helps the student or parent maintain control over the borrowing process. The confirmation process may be designed to be part of the required notices and disclosures (discussed in chapter 2), or it may be a separate process that supplements those notices and disclosures.

To help ensure student borrower control over the borrowing process, 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 proposed loan package.
- Passive confirmation—a school does not disburse the loan until the borrower is notified of his or her proposed loan package, and the time given to the borrower to respond has elapsed. (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 be used as part of either an active or passive confirmation process. 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 he or 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 this is the case, you should notify your lenders. (Also note that lenders have the option to require a new MPN for each loan.) If you're at a Direct Loan school and don't

want to use the multi-year feature for any of your students, contact the COD School Relations Center. See Direct Loan Bulletin DLB-03-02.

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 or lender (for FFEL) in writing. Direct Loan borrowers may send their written notification to the Direct Loan Servicing Center (DLSC) or to their school to forward to COD. The effective date is the date the school, lender, COD, or DLSC 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 applying for a PLUS loan must complete a PLUS Application and Master Promissory Note. All student PLUS borrowers must complete a FAFSA. A parent borrower must complete a FAFSA if required by their child's school. 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 or lender may require a new MPN for each PLUS loan.

Establishing Grad/Professional Eligibility

Before certifying 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:

PLUS borrowers

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

Determination of Stafford eligibility required

34 CFR 682.603(d), 34 CFR 685.301(a)

Initial PLUS loan counseling required

34 CFR 682.604(f)(2) & 34 CFR 685.304(a)(2)

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 — for example, 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, provided the goals of the confirmation process are accomplished.

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. 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.

The most effective processes will likely vary among schools. Participants are encouraged to use and test various technologies in this process. Some technologies suggested include the Internet, email, card technologies and voice response.

Generally, schools (in both the Direct Loan and FFEL programs) should use the same confirmation process for all borrowers. However, in some cases, a school may want to establish more than one confirmation process 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, a school could have a policy that requires active confirmation for undergraduate students and passive confirmation for graduate students.

Regardless of the process(es) used, schools and FFEL lenders must document their confirmation procedures. A school (and lenders in the FFEL Program) 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 other school policies, such as refunds and academic progress.

- 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.

PLUS borrower certification

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. Each school and lender must establish and document the process by which one of the parties will collect the requested loan amount from the borrower. A PLUS loan may not be made for more than what the borrower requests.

Your school must collect this information before certifying the PLUS loan and may use various means such as the PLUS Certification form (for FFEL, see the margin note), a borrower response section on your financial aid award letter, a separate PLUS form, documented telephone or electronic requests, or other means. If your school participates in the FFEL program, you may also make arrangements with the lenders for them to collect this information from borrowers before approving the loan.

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

For parent PLUS applicants, before certifying the loan, you must determine the FSA eligibility of the dependent student for whom the parent is borrowing. Moreover, because a parent may not borrow on behalf of a student who is ineligible for FSA funds, or if the parent is ineligible for FSA funds, for a parent PLUS loan, you must not certify the application until you have obtained the dependent student's complete financial aid history. Also, when certifying a parent PLUS loan, you must certify the parent's and dependent student's enrollment status and anticipated completion/graduation date.

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.

PLUS MPN approval for foreign schools

Foreign schools must get approval from ED to be able to use the multi-year feature of the PLUS MPN. If the foreign school does not have this approval, the parent will have to sign a new PLUS MPN for each new loan period.

Grad PLUS MPN at foreign schools

A graduate or professional student attending an eligible foreign institution will only be able to use the multi-year feature of the PLUS MPN if the school has been expressly approved by the Department to have its student and parent borrowers do so. No eligible foreign institution is approved for this purpose at the current time. As a result, until the Department approves foreign institutions for this purpose, a graduate or professional student PLUS borrower attending an eligible foreign institution will need to sign a new PLUS MPN for each new loan period.

PLUS Certification Form (FFEL only)

The Department has developed a paper Federal PLUS Loan Information and School Certification (PLUS Certification form) to be used by FFEL schools that do not complete loan certification electronically. This form was approved as part of the PLUS MPN documents package and is printed and distributed by lenders and guaranty agencies.

The PLUS Certification form includes a Borrower and Student Information section. If you elect to secure the loan information and initiate the process, you may send the Certification form to the borrower for completion of the borrower/student information. Alternatively, if the lender or guarantor secures this information, the borrower/student section would be pre-filled and you would only secure the borrower's signature and provide the school certification data.

Adverse Credit History

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. FFEL lenders may establish more restrictive credit standards for determining adverse credit.

When determining whether a borrower is ineligible for a PLUS Loan based on an adverse credit history, the lender, or the Department for Direct loans, must obtain a credit report on the borrower from at least one national credit bureau. To provide a more accurate determination of adverse credit, the report must be obtained within a timeframe reasonably related to the loan period. If the PLUS borrower requests additional funds for an existing loan period (resulting in a loan amount adjustment, not a new loan), the lender is not required to obtain a new credit report but may do so.

If your school participates in the FFEL program and is eligible to use the multi-year PLUS MPN, the borrower's PLUS loan request for subsequent years is sufficient documentation to make additional loans—there is no separate confirmation process for PLUS loans—but the borrower's PLUS loan amount request must be secured for each loan made using an MPN. Direct Loan schools using the PLUS loan MPN as a multi-year note are required to have an active confirmation process.

Adverse credit history & 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; any increase to that amount by the parent borrower must be approved by the endorser and requires a new MPN and endorser addendum.

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.