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

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 an 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

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

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.

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 twelve-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 ten-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 is 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.

School Responsibilities

Certifying an FFEL:

see 34 CFR 682.603

Originating a Direct Loan:

see 34 CFR 685.301

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 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 five percent 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 percent. (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)