Direct Loan Periods and Amounts

CHAPTER 5

The rules for awarding Direct Loans are different than for Pell Grants and other FSA programs. For Direct Subsidized Loans and Direct Unsubsidized Loans, there are annual loan limits that vary by grade level, and there are aggregate limits on the total (cumulative) loan amount that may be outstanding at one time. The timing of Direct Loan disbursements may not always correspond to the timing of disbursements for other FSA programs. The requirement to prorate the annual loan limits for Direct Subsidized Loans and Direct Unsubsidized Loans under certain circumstances differs from the requirements for calculating Pell Grants based on the student's enrollment status.

Chapter 5 Highlights

Measurements of academic and loan periods
- Loan periods, academic terms, and program length
- "SE9W" and "non-SE9W" nonstandard terms
- Scheduled Academic Year (SAY) and Borrower-Based Academic Year (BBAY) standards

Loan Limits
- Annual and aggregate loan limits for Direct Subsidized Loans and Direct Unsubsidized Loans
- Undergraduate limits based on grade level and dependency status
- Proration of undergraduate limits for programs or remaining portions of programs less than an academic year
- Increased Direct Unsubsidized Loan annual and aggregate limits for certain health professions students
- Loan limits for transfer students, teacher certification coursework, and coursework necessary for enrollment in an eligible program

DIRECT LOAN ORIGINATION

Overview

Origination is the process of creating a Direct Loan award in the school's system. Before originating a Direct Loan, a school must determine the student's or parent's eligibility for the loan. For each Direct Loan that a school disburses to a student or parent, the school must submit a loan award record to the Common Origination and Disbursement (COD) system that includes the student's grade level, the loan period and academic year dates, the loan amount, the anticipated and actual dates and amounts of the loan disbursements, and other information. Submission of a loan award record serves as the school's certification that it has determined the borrower's eligibility for the loan.

A borrower's eligibility for a Direct Loan is calculated differently than for a Pell Grant. There are no fixed tables such as the Pell Grant Payment and Disbursement Schedules that determine award amounts. The specific

Direct Loan amount that a student or parent borrower is eligible to receive is determined based on various factors such as the student's cost of attendance (COA), expected family contribution (EFC), other estimated financial assistance (EFA), and remaining eligibility under the annual and aggregate loan limits. Some of these factors are relevant only when determining eligibility for certain types of Direct Loans.

Direct Subsidized Loans and Direct Unsubsidized Loans have annual and aggregate limits that are the same for all students at a given grade level and dependency status. You may not originate a Direct Loan for an amount that:

- Exceeds the amount requested by the borrower;
- In the case of a Direct Subsidized Loan, exceeds the student's COA minus the student's EFC and EFA;
- In the case of a Direct Unsubsidized Loan or Direct PLUS Loan, exceeds the student's COA minus EFA; or
- In the case of a Direct Subsidized Loan or Direct Unsubsidized Loan, would cause the student to exceed the annual or aggregate limit.

See *Chapter 7 o*f this volume for more information on packaging Direct Loans as part of a student's financial aid award.

Originating a loan

A financial aid administrator should be aware of the responsibility incurred in originating and disbursing a loan. The school, not the U.S. Department of Education (the Department), determines the borrower's eligibility for a Direct Loan. Schools that originate and disburse loans for ineligible borrowers, or for loan amounts that exceed loan limits or the borrowers' need, are subject to administrative actions such as a fine, limitation, suspension, and termination, as well as liabilities including repayment to the government of interest and costs it has paid on the ineligible loans.

A school must originate a Direct Loan while the student is enrolled and eligible for the period of enrollment for which the loan is intended. A school may not originate a loan for a period in which the student is no longer enrolled. For example, you may not originate a loan for a prior academic year that has ended, even if the student is currently enrolled and eligible for the next academic year. Similarly, if a student who was enrolled at least half time only for the fall and spring quarters of an academic year consisting of fall, winter, and spring quarters does not request a loan until the spring, you may not at that time originate a loan for the fall quarter.

You may not condition the disbursement of a loan on anything other than the eligibility criteria under the federal regulations that govern the Direct Loan Program. For example, you may not require students to participate in counseling beyond the required entrance counseling for first-time student borrowers as a condition for receiving a Direct Loan, nor may you require a student to complete a separate Direct Loan application as a condition for receiving a

Direct Loan. See Dear Colleague Letter GEN-15-16 and the Electronic Announcement posted on March 18, 2014. For Direct Loan entrance counseling requirements, see *Volume 2, Chapter 6, Providing Consumer Information.*

Direct PLUS Loan Application

Schools that offer Direct PLUS Loans have the option of requiring parent and graduate/professional student Direct PLUS Loan applicants to complete the Direct PLUS Loan Application (formally known as the "Federal Direct PLUS Loan Request for Supplemental Information") on the Department's StudentAid.gov website as the first step in applying for a Direct PLUS Loan. The Direct PLUS Loan Application collects the requested loan amount, the period of enrollment for which the loan is intended, and other information related to processing the requested Direct PLUS Loan.

Use of the Direct PLUS Loan Application on StudentAid.gov is not required. Schools may choose to develop their own processes for obtaining the information needed to originate Direct PLUS Loans.

As noted in *Volume 1, Chapter 3*, the Central Processing System (CPS) does not match parent Direct PLUS Loan applicants against the National Student Loan Data System (NSLDS) to determine if the parent is in default on a Title IV loan. However, the Department conducts an NSLDS default check on all Direct PLUS Loan applicants (both students and parents) who complete the Direct PLUS Loan Application on StudentAid.gov.

Schools that use the Direct PLUS Loan Application are notified of the result of the NSLDS default check through the COD system. The result is reported as one of the following values:

- "N" = The borrower is not in default on any Title IV loan.
- "Y" = The borrower is in default on a Title IV loan.
- "E" = Unable to determine if the borrower is in default on a Title IV loan.

If the result is "N," a parent or graduate/professional student who meets all other Direct PLUS Loan eligibility requirements may receive a Direct PLUS Loan.

If the result is "Y," the parent or graduate/professional student may not receive a Direct PLUS Loan (or any other Title IV aid) until the default status is resolved. (See "Resolving Default Status" in *Volume 1, Chapter 3* for more information.)

A result of "E" may be reported if for some reason it was not possible to conclusively determine that the applicant is not in default (this is most commonly due to temporary systems issues involving the interface between the Direct PLUS Loan Application and NSLDS). In this case, if the Direct PLUS Loan applicant is a graduate/professional student and the CPS NSLDS match indicates that the individual is not in default, you may rely on the results of that check. If the applicant is a parent, you must separately check NSLDS to confirm that the parent is not in default before originating a Direct PLUS Loan.

Direct PLUS Loan Application NSLDS default check
October 18, 2016 Electronic Announcement

IMPORTANT: If you do not require Direct PLUS Loan applicants at your school to complete the Direct PLUS Loan Application, you must check NSLDS for all *parent* applicants to confirm that they are not in default before originating Direct PLUS Loans for these individuals (see *Volume 1* for more information).

Refusing to originate a loan
HEA Sec. 479(A)(c)
34 CFR 685.301(a)(8)
DCL GEN-11-07

Refusing to originate a loan or originating for less than maximum eligibility

On a case-by-case basis, you may refuse to originate a Direct Loan for an individual borrower, or you may originate a loan for an amount less than the borrower's maximum eligibility. If you choose to exercise this discretion, you must ensure that your decisions are made on a case-by-case basis and do not constitute a pattern or practice that denies access to Direct Loans for borrowers because of race, sex, color, income, religion, national origin, age, or disability status. When you make a decision not to originate a loan or to reduce the amount of the loan, you must document the reasons and provide the explanation to the student in writing. Also note that your school may not have a policy of limiting Direct Loan borrowing on an across-the-board or categorical basis. For example, you may not have a policy of limiting borrowing to the amount needed to cover the school charges, or not allowing otherwise eligible students to receive the "additional" Direct Unsubsidized Loan amounts that are available under the annual loan limits.

Checklist for loan origination

For all Direct Loans, you must document the student's COA, EFC, and EFA in the student's file. This information must be made available to the Department upon request.

You must confirm that the borrower meets the definition of eligible borrower by doing the following:

- Determine that the student is enrolled at least half time and making satisfactory academic progress (see *Volume 1*);
- Review the NSLDS information on the ISIR to ensure that the student is not in default, does not owe an overpayment on a Title IV grant or loan (see *Volume 1*), and will not exceed the annual or aggregate loan limits (as described later in this chapter);
- Ensure that the amount of the loan, in combination with other aid, will not exceed the student's financial need or COA (see *Chapter 7* of this volume);
- For parents receiving a Direct PLUS Loan, ensure that the **student** has completed a FAFSA (review student's SAR/ISIR); and
- Ensure that the loan disbursement dates meet cash management and disbursement requirements.

For a Direct Subsidized/Unsubsidized Loan, you must also:

- Determine the student's Pell Grant eligibility and if they are eligible, include the grant in the student's aid package;
- For a Direct Unsubsidized Loan made to an undergraduate

student, first determine the student's eligibility for a Direct Subsidized Loan and if the student is eligible, include the Direct Subsidized Loan in the student's aid package;

- Ensure that the amount of the loan will not exceed the student's annual or aggregate loan limit; and
- Prorate the annual loan limit for an undergraduate enrolled in a program or remaining period of study that is shorter than an academic year (as described later in this chapter).

Direct Loans at multiple schools

Unlike Pell Grants, it is possible for a student who is concurrently enrolled and eligible at more than one school to receive Direct Loans at each school. If the student is receiving Direct Subsidized Loans or Direct Unsubsidized Loans, the schools that the student is attending are responsible for coordinating to make sure that the total amount of the loans the student receives does not exceed the applicable annual or aggregate loan limit. In addition, the schools must ensure that there is no duplication of non-institutional costs when determining the student's cost of attendance. (Note that in this case, which is different than the consortium arrangements discussed in *Volume 2*, loan funds awarded at one school are not to be included as estimated financial assistance by any other school the student is attending when determining the student's loan eligibility for the same period.)

No minimum Direct Loan amount in COD system

The COD system does not set a minimum amount for which a school may originate a Direct Loan.

Resolving conflicting information in NSLDS

If you can document that the student is eligible for FSA funds despite the information shown on NSLDS, you may award and disburse aid. For example, if the NSLDS Financial Aid History page of the SAR or ISIR shows that the student has a defaulted loan, but you have obtained documentation from the holder of the loan that the borrower has made satisfactory arrangements to repay the defaulted loan, you may disburse aid. You must retain all applicable documentation supporting the student's eligibility to receive FSA funds in the student's file.

DIRECT SUBSIDIZED, UNSUBSIDIZED, AND PLUS LOANS

Direct Subsidized Loans vs. Direct Unsubsidized Loans

Only students who have financial need may receive Direct Subsidized Loans. The federal government does not charge interest on Direct Subsidized Loans while the borrower is enrolled on at least a half-time basis, during the grace and deferment periods, and during certain other periods (for example, during certain periods of repayment under certain income-driven repayment plans).

If a student has received a determination of need for a Direct Subsidized Loan in an amount of $200 or less, the school may choose not to originate a Direct Subsidized Loan and may instead include that amount as part of a Direct Unsubsidized Loan.

Financial need is not an eligibility requirement to receive a Direct Unsubsidized Loan. The federal government generally charges interest on Direct Unsubsidized Loans during all periods, with limited exceptions (for example, during periods of deferment for cancer treatment).

Direct Unsubsidized Loans for students whose parents have ended financial support and refuse to file a FAFSA

If you verify that the parents of a dependent undergraduate student have refused to complete the parental information sections of the FAFSA and that they have ended financial support for the student, you may make a professional judgment decision to offer the student a Direct Unsubsidized Loan in an amount up to the applicable annual loan limit for a dependent undergraduate. For instance, under these circumstances a dependent second-year undergraduate could receive up to $6,500 in Direct Unsubsidized Loan funds. However, the student may not receive Direct Subsidized Loans or aid from any other FSA programs.

Self-certification from the dependent student is not sufficient to verify that the parents have ended financial support and refuse to complete the FAFSA. In most cases, this requirement can be met by obtaining a signed and dated statement from one of the student's parents specifically stating that the parents have stopped providing financial support to the student (including the date when the financial support stopped), will not provide financial support in the future, and refuse to complete the parental section of a FAFSA. For more information, see the "Professional Judgment" section in *Chapter 5* of the *Application and Verification Guide* and the discussion under "Discretion of the Student Financial Aid Administrators" on page 79 of DCL GEN-08-12.

Requirement to offer both subsidized and unsubsidized loans

Direct Subsidized and Direct Unsubsidized Loans are two components of a single loan program. A school may not choose to make only Direct Subsidized Loans or only Direct Unsubsidized Loans available to its eligible students. For more information, see DCL GEN-11-07.

Requirement to offer Direct PLUS Loans to both parent and student borrowers

If your school chooses to participate in the Direct PLUS Loan Program and has both undergraduate and graduate/professional students, you must make Direct PLUS Loans available to both the parents of your dependent undergraduate students and to your graduate/professional students. You may not limit Direct PLUS Loan borrowing only to parents or only to graduate/professional students. For more details, see DCL GEN-11-07.

Definition of "parent" for Direct PLUS Loan purposes

Assuming that they meet all other Direct PLUS Loan eligibility requirements, the following individuals can borrow Direct PLUS Loans on behalf of a dependent undergraduate student:

- The student's biological parent;
- The student's legal adoptive parent; or
- The student's stepparent (spouse of the student's biological or legal adoptive parent), but only if that individual is considered to be a parent in accordance with the instructions on the Free Application for Federal Student Aid (FAFSA) for purposes of reporting their income and assets on the FAFSA.

Grandparents and other family members are **not** eligible to take out Direct PLUS Loans on behalf of a dependent undergraduate student unless they have legally adopted the student.

In addition to the parent(s) whose resources are taken into account on a student's FAFSA, any otherwise eligible biological or legal adoptive parent of the dependent undergraduate student can also take out a Direct PLUS Loan on the student's behalf, even if that parent's information is not reported on the FAFSA.

Note also that more than one parent can take out a Direct PLUS Loan on behalf of the same dependent undergraduate student. For example, if a student's biological or legal adoptive parents are divorced, they may decide to each take out a Direct PLUS Loan for an agreed upon amount (not to exceed the student's COA, minus other EFA) to help pay for the cost of the student's education.

ACADEMIC TERMS, LOAN PERIODS, AND REPORTING CHANGES TO LOAN INFORMATION

Standard term, nonstandard term, and non-term programs

As explained later in this chapter, different rules apply for purposes of determining the minimum loan period for a Direct Loan and the type of academic year that a school may use to monitor Direct Loan annual loan limits depending on whether a program is term-based (with either standard or nonstandard terms) or is a non-term program (all clock-hour programs are treated as non-term programs), and in the case of a term-based program with nonstandard terms, depending on the type of nonstandard term, as described below. For detailed information on standard term, nonstandard term, and non-term programs, see *Chapter 1* of this volume.

Nonstandard terms may be one of the following types:

1. Nonstandard terms that are substantially equal (no term in the academic year differs in length from any other term by more than two weeks), and each of the terms is at least nine weeks in length.

2. Nonstandard terms that are substantially equal, but one or more of the terms in the academic year contains fewer than nine weeks.

3. Nonstandard terms that are not substantially equal in length (one or more of the terms in the academic year differs in length from another term by more than two weeks).

We refer to the first type as "SE9W" nonstandard terms. We group the second and third types together and refer to them as "non-SE9W" nonstandard terms.

Programs with SE9W nonstandard terms are treated the same as standard-term programs for purposes of determining minimum loan period length and monitoring annual loan limits. However, programs with non-SE9W nonstandard terms are treated the same as non-term programs for these purposes.

Note that substantially equal nonstandard terms (the first two types of nonstandard terms described above) are treated differently for purposes of determining Direct Loan payment periods than for determining minimum loan period length and monitoring annual loan limits. As explained in *Chapter 1* of this volume, if a program is offered in standard terms or in nonstandard terms that are substantially equal in length (regardless of the length of the nonstandard term), the payment period is the term.

However, for purposes of determining the minimum loan period for a Direct Loan and monitoring Direct Loan annual loan limits, substantially equal nonstandard terms that contain fewer than nine weeks are treated the same as nonstandard terms that are not substantially equal. This means that if a program has substantially equal nonstandard terms that are less than nine weeks in length, the school will make a Direct Loan disbursement each term (the same as would be the case if the program were offered in standard terms), but the minimum loan period for which the school may originate a Direct Loan and the type of academic year used to monitor Direct Loan annual loan limits must be determined in accordance with the rules that apply to non-term programs.

Period of enrollment definition
34 CFR 685.102(b)

Loan period (period of enrollment)

The loan period (also referred to as the "period of enrollment") is the period for which a Direct Loan is intended. It must coincide with an academic period established by the school for which institutional charges are generally assessed (e.g., semester, trimester, quarter, length of the student's program, or academic year).

It's important to define the loan period at the beginning of the loan awarding process, because the timing and amount of Direct Loan disbursements are tied to the loan period.

Minimum and maximum loan periods
34 CFR 685.301(a)(10).

Minimum and maximum loan periods

The **minimum** period for which a school may originate a Direct Loan varies depending on the school's academic calendar:

- For **credit-hour programs with standard terms (semesters, quarters, or trimesters), or with SE9W nonstandard terms**, the minimum loan period is a single academic term. For example, if a student will be enrolled in the fall semester only and will skip the spring semester, you may originate a loan with a loan period that covers only the fall term. The loan amount must be based on the reduced costs and EFC for that term, rather than for the full academic year.

- For **all other programs (i.e., clock-hour, non-term, and non-SE9W nonstandard term programs)**, the minimum loan period is generally the lesser of the program length (or remainder of the program, if there is less than full academic year remaining) or the academic year. There are exceptions to this minimum loan period rule when originating loans for transfer students, or for students who complete or otherwise cease enrollment in one program and then begin a different program at the same school. We discuss these exceptions in detail later in this chapter.

The **maximum** period for which a school may originate a Direct Loan is generally an academic year. However, if a school applies the annual loan limit for Direct Subsidized Loans and Direct Unsubsidized Loans to a period of time greater than an academic year, the school may originate a Direct Loan for that longer period of time. For example, a school might offer an 1100 clock-hour program and define the academic year as 900 clock hours, but could choose to allow students to receive just one annual loan limit for the entire 1100-hour program. In that case, the loan period would correspond to the length of the program, a period of time that is longer than the academic year.

The loan period may not include terms in which a student is ineligible. For example, if the academic year consists of the fall, winter, and spring quarters, and a student is expected to be enrolled at least half time in the fall and spring, but not enrolled in the winter, you may not originate a loan for a loan period covering the full academic year. Instead, you must originate separate loans for the fall and spring quarters.

Reporting loan information changes

It's important for schools to accurately report academic year dates and loan period dates for all types of Direct Loans to COD. You must also update a loan's previously reported loan period dates or academic year dates if the borrower's actual attendance is different from the anticipated dates that were the basis for an initial reporting to COD. Some examples of when you must update loan data in COD include:

- If the borrower requests that a loan, or a disbursement of a loan, be cancelled;
- When the borrower does not begin attendance, or does not begin attendance on at least a half-time basis, in a payment period that was included in the originally reported loan period and you did not make any disbursements for that payment period;
- When you determine that the borrower is not eligible to receive a Direct Loan for a payment period that was part of the originally reported loan period (for example, failure to

meet Satisfactory Academic Progress standards, the borrower has an overpayment, or a change in circumstances makes the borrower ineligible for a subsidized loan);

- When the borrower withdraws during a payment period that was included in the originally reported loan period, and as a result, the entire amount of the loan that was intended for that payment period is returned under the Return of Title IV Funds (R2T4) calculation;
- For clock-hour programs, non-term credit-hour programs, and certain types of nonstandard term credit-hour program, the borrower fails to progress to the next payment period or academic year as scheduled.

RESOURCES FOR SCHOOLS

FSA Assessments

For a guide to reviewing and evaluating your procedures regarding Direct Loans, see the Direct Loans module of FSA Assessments.

DL Tools for Windows

Direct Loan Tools for Windows is a Windows-based application designed to provide various functionalities related to all Direct Loan schools' software. It is available for download in the Knowledge Center on the Software and Other Tools page..

COD School Relations Center

1-800-848-0978

SEQUESTRATION

The Budget Control Act (BCA) put into place an automatic federal budget cut known as the sequester. For loans made under the Direct Loan program, the sequester requires an increase in the amount of the loan fee (also known as the origination fee) that is charged to borrowers. For details on the sequester-required changes to Direct Loan origination fees, see the May 17, 2021 Electronic Announcement.

Direct Loan annual loan limits
34 CFR 685.203

ANNUAL LOAN LIMITS

Overview

Direct Subsidized Loans and Direct Unsubsidized Loans have annual loan limits that vary based on the student's grade level and (for Direct Unsubsidized Loans) dependency status, as discussed below and summarized in a chart at the end of this section. The annual loan limits are the maximum amounts that a student may receive for an academic year. The actual loan amount that a borrower is eligible to receive may be less than the annual loan limit. (There are also aggregate loan limits for Direct Subsidized Loans and Direct Unsubsidized Loans. See "Aggregate Loan Limits" later in this chapter.)

There are higher Direct Unsubsidized annual loan limits for borrowers enrolled in certain health professions programs, and special loan limits for certain students who are not enrolled in a program that leads to a degree or certificate awarded by the school they are attending. The annual loan limits for undergraduate students must be prorated (reduced) in some cases.

Depending on the academic calendar of the program, a student who has reached the annual loan limit cannot receive another Direct Subsidized Loan or Direct Unsubsidized Loan until they either begin another academic year, or, in some cases, progress within an academic year to a grade level with a higher annual loan limit.

Annual loan limits: basic principles

- For undergraduate students, there is a combined overall annual loan limit for Direct Subsidized Loans and Direct Unsubsidized Loans, of which not more than a specified amount may be comprised of Direct Subsidized Loans.
- For graduate/professional students, there is an annual loan limit only for Direct Unsubsidized Loans. Graduate/professional students are not eligible to receive Direct Subsidized Loans.
- An undergraduate student who is ineligible for Direct Subsidized Loans may receive up to the total combined subsidized and unsubsidized annual loan limit in Direct Unsubsidized Loans.
- The Direct Subsidized Loan annual loan limits are the same for both dependent and independent undergraduates.
- Dependent students have lower combined subsidized/unsubsidized annual loan limits than independent students. However, if a dependent student's parent(s) cannot borrow a Direct PLUS Loan, the student becomes eligible for the higher combined subsidized/unsubsidized annual loan limits that are otherwise available only to independent students, allowing the dependent student to receive additional Direct Unsubsidized Loan funds (note, however, that this does not change the student's dependency status).
- The annual loan limits apply to the academic year (that is, the annual loan limit is the maximum loan amount that a student may receive for one academic year).
- The student's maximum annual loan limit increases as the student progresses to higher grade levels.
- For undergraduate students, the loan limit must be prorated if the student is enrolled in a program (or in the remaining portion of a program) that is less than an academic year.

Annual loan limit progression: SAY/BBAY

- For Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans, a school must use either a Scheduled Academic Year (SAY) or a Borrower-Based Academic Year (BBAY) to determine when a student is eligible for a new annual loan limit.
- An SAY generally begins/ends at the same time each year;

- A BBAY does not begin/end at the same time each year. Instead, it "floats" with the student's enrollment.
- An SAY may be used by **(1)** a program with standard terms and a traditional academic calendar, or **(2)** a program with SE9W nonstandard terms and a comparable calendar. (This also applies to subscription-based programs with standard terms or SE9W nonstandard terms. For more information on academic calendars for subscription-based programs, see *Chapter 1* of this volume.)
- A clock-hour or non-term program, or a program that does not have an SAY, **must** use a BBAY.
- In a clock-hour or non-term credit-hour program, or a program with nonstandard terms that are not SE9W, the borrower must successfully complete the credit/clock hours and weeks of instructional time in the Title IV academic year before the borrower is eligible for a new annual loan limit.
- In a standard-term or SE9W nonstandard term program, it is possible for a student to advance a grade level and become eligible for a higher loan amount within an academic year.

Annual loan limits for dependent undergraduates

For dependent undergraduate students (excluding dependent undergraduates whose parents are unable to obtain Direct PLUS Loans), the combined Direct Subsidized Loan and Direct Unsubsidized Loan annual loan limits are:

- $5,500 for **dependent first-year undergraduates**, not more than $3,500 of which may be subsidized;
- $6,500 for **dependent second-year undergraduates**, not more than $4,500 of which may be subsidized; and
- $7,500 for **dependent third-, fourth-, and fifth-year undergraduates**, not more than $5,500 of which may be subsidized.

These loan limits represent the total of all Direct Subsidized Loans and Direct Unsubsidized Loans a dependent undergraduate student may borrow at each level of study for a single academic year. For example, a dependent first-year undergraduate may receive up to $5,500 in Direct Subsidized Loans and/or Direct Unsubsidized Loans for a single academic year, but no more than $3,500 of this amount may be subsidized. A dependent first-year undergraduate who has no subsidized loan eligibility could receive up to the full $5,500 in Direct Unsubsidized Loans.

Increased Direct Unsubsidized Loan eligibility for independent undergraduates and certain dependent undergraduates
34 CFR 685.203(c)

Increased unsubsidized loan limits for independent undergraduates and for certain dependent undergraduates

The maximum Direct Subsidized Loan amount that an undergraduate student may receive each academic year is the same for both dependent and independent undergraduates. However, there are higher Direct Unsubsidized Loan annual loan limits for independent undergraduate students and for dependent undergraduates whose parents unable to obtain Direct PLUS

Loans. For these students, the combined Direct Subsidized Loan and Direct Unsubsidized Loan annual loan limits are:

- $9,500 for **independent first-year undergraduates** (and for dependent first-year undergraduates whose parents are unable to obtain Direct PLUS Loans), not more than $3,500 of which may be subsidized;
- $10,500 for **independent second-year undergraduates** (and for dependent second-year undergraduates whose parents are unable to obtain Direct PLUS Loans), not more than $4,500 of which may be subsidized; and
- $12,500 for **independent third-, fourth-, and fifth-year undergraduates** (and for dependent third-, fourth-, and fifth-year undergraduates whose parents are unable to obtain Direct PLUS Loans), not more than $5,500 of which may be subsidized.

As with the loan limits for dependent undergraduates, these loan limits represent the total of all Direct Subsidized Loans and Direct Unsubsidized Loans that an independent undergraduate student (or a dependent undergraduate whose parent is unable to obtain a Direct PLUS Loan) may borrow at each level of study, for a single academic year. For example, an independent, first-year undergraduate may receive up to $9,500 in Direct Subsidized Loans and Direct Unsubsidized Loans for a single academic year, but no more than $3,500 of this amount may be subsidized.

Although a dependent undergraduate whose parent is unable to obtain a Direct PLUS Loan has access to the same higher Direct Unsubsidized Loan annual loan limits as an independent undergraduate at the same grade level, the student is still considered to be a dependent student for all other FSA purposes.

For more detail on the conditions under which a dependent undergraduate can receive increased Direct Unsubsidized Loan amounts, see "Criteria for additional Direct Unsubsidized Loans" later in this chapter.

Example: annual loan limit for independent undergraduate

Dottie is a first-year independent undergraduate student at Russell's Institute. Her combined Direct Subsidized Loan and Direct Unsubsidized Loan annual loan limit is $9,500, not more than $3,500 of which may be subsidized. Her COA is $14,500, her EFC is 1800, and she is receiving a $4,595 Pell Grant. Dottie has sufficient financial need to qualify for the maximum Direct Subsidized Loan amount of $3,500. She may also receive an additional $6,000 in Direct Unsubsidized Loan funds to fully cover her unmet need and replace part of the EFC (see *Chapter 7* of this volume for information on using Direct Unsubsidized Loan funds to replace the EFC). Her total loan amount in Direct Subsidized Loans and Direct Unsubsidized Loans is $9,500. (Note that Dottie's loan eligibility would be the same if she were a dependent undergraduate whose parent was unable to obtain a Direct PLUS Loan.)

Annual loan limit for graduate and professional students

The annual loan limit for graduate or professional students is $20,500 in Direct Unsubsidized Loans per academic year. Graduate and professional students are not eligible to receive Direct Subsidized Loans.

A student in an undergraduate program is not eligible for the graduate loan limit based on taking graduate coursework as a part of the undergraduate program. In contrast, a graduate student taking some undergraduate coursework is eligible for the graduate loan limit if the student is enrolled at least half time in courses (graduate or undergraduate) that can be applied to the graduate program. However, the student must already be admitted into the graduate program.

A student with a bachelor's degree who is taking preparatory work for graduate school (or whose full admission to the graduate program is contingent upon completion of certain undergraduate courses) is not eligible for graduate loan limits. See the discussion later in this chapter on annual loan limits for students taking preparatory coursework.

Annual limits for sub/unsub loans

	Total (sub and unsub)	*Maximum sub*
Dependent undergraduates (excluding dependent students whose parents can't get PLUS)		
First Year	$ 5,500	$ 3,500
Second Year	$ 6,500	$ 4,500
Third Year and Beyond	$ 7,500	$ 5,500
Independent undergraduates and dependent students whose parents can't get PLUS		
First Year	$ 9,500	$ 3,500
Second Year	$ 10,500	$ 4,500
Third Year and Beyond	$ 12,500	$ 5,500
Graduate and Professional Students (all years)	$ 20,500	$0

Note: All undergraduate annual loan limits are subject to proration.

See guidance elsewhere in this chapter on increased unsubsidized loan limits for certain health professions students, and loan limits for preparatory and teacher certification coursework.

Direct PLUS Loan amounts for parents and graduate/professional students

There are no fixed annual or aggregate loan limits for Direct PLUS Loans. A graduate or professional student may be awarded a Direct PLUS Loan for up to the student's COA minus other EFA (see *Chapter 7* for packaging rules). Therefore, a graduate/professional student who has received the maximum Direct Unsubsidized Loan amount for an academic year may have additional Direct PLUS Loan eligibility. Similarly, the total Direct PLUS Loan amount borrowed by a parent on behalf of a dependent student may not exceed the student's estimated COA minus other EFA the student receives for the period of enrollment. This is the only borrowing limit for Direct PLUS Loans.

Loan limits for programs greater than one academic year, but less than two academic years in length

The "Eligibility and Certification Approval Report" (ECAR) lists "one-year" as the highest educational program offered by the school if its longest program is one academic year or longer, but less than two years in length. Students who have successfully completed the first academic year of such programs can be treated as second-year undergraduates for annual loan limit purposes, even though the ECAR lists the school's highest program offering as "one-year." For instance, a student enrolled in a 1,500 clock-hour program would be eligible for the second-year loan limits after completing the first 900 clock hours and 26 weeks of instructional time. However, because the remaining portion of the program would be less than a full academic year in length, the loan limit would have to be prorated, as explained later in this chapter.

Loan limits for one-year and two-year programs

If a program can normally be completed in one year of full-time study, a student in that program can never receive more than the first-year annual loan limit, even if it takes the student more than one academic year to finish the program. Similarly, a student in a two-year program can never receive more than the second-year annual loan limit for an academic year.

Note also that a school may not link two stand-alone one-year programs by making one a prerequisite for admission, and then classify students beginning the second one-year program as second-year undergraduates for loan limit purposes. However, hours or credits earned in a prior certificate program could be used to classify a transfer student at a grade level higher than grade level one, if the student transfers into a program that is greater than one academic year in length and the new school accepts a year's worth of credits/hours from the prior program. For instance, if a school admits a transfer student from a certificate program and accepts 900 clock hours that the student earned toward its 1,500-hour program, the student could be eligible for the second-year loan limits if other students in the program are eligible for second-year loan limits after completing the first 900 hours of the program.

Annual loan limits for preparatory coursework and teacher certification programs

In *Volume 1, Chapters 1 and 6*, we discussed instances in which a student may receive Direct Loans for coursework that is not part of an eligible program (preparatory coursework and teacher certification programs). The annual loan limits for students enrolled in preparatory coursework or teacher certification programs are shown in the chart below.

For more detailed guidance on the eligibility of students to receive Direct Loans and other Title IV aid for teacher certification programs, see Dear Colleague Letter GEN-16-10.

Annual loan limits for preparatory coursework and teacher certification

Preparatory coursework (not to exceed 12 consecutive months)

Coursework required for enrollment in an undergraduate program:

Dependent undergraduates	$2,625
Independent undergraduates (and dependent undergraduates whose parents can't get Direct PLUS Loans)	$8,625 (maximum $2,625 subsidized)

Coursework required for enrollment in a graduate or professional program:

Dependent undergraduates	$5,500
Independent undergraduates (and dependent undergraduates whose parents can't get Direct PLUS Loans)	$12,500 (maximum $5,500 subsidized)

Teacher certification programs

Dependent undergraduates	$5,500
Independent undergraduates (and dependent undergraduates whose parents can't get Direct PLUS Loans)	$12,500 (maximum $5,500 subsidized)

Note that for dependent undergraduates, the annual loan limits shown above do not provide an additional unsubsidized loan amount beyond the maximum annual subsidized amount, as is the case with the loan limits for independent undergraduates and dependent undergraduates whose parents cannot get Direct PLUS Loans. For dependent undergraduates enrolled in preparatory coursework or teacher certification programs, there is just a single annual loan limit representing the maximum amount of subsidized and/or unsubsidized loans that the student may receive for an academic year. For example, a dependent undergraduate taking preparatory coursework required for enrollment in a graduate or professional program could receive up to $5,500 per academic year in Direct Loan funds, which could be all subsidized, all unsubsidized, or a combination of subsidized and unsubsidized.

Loan limits for preparatory coursework and teacher certification coursework are not subject to proration if the coursework is less than a full academic year. See "Prorating Annual Loan Limits for Direct Subsidized/Unsubsidized Loans (Undergraduate Only)" later in this chapter.

Criteria for additional Direct Unsubsidized Loans

Dependent students whose parents are unable to borrow Direct PLUS Loans due to adverse credit or other exceptional circumstances may receive additional Direct Unsubsidized Loan funds up to the same amount that is available to independent undergraduate students. The additional Direct Unsubsidized Loan amount may not substitute entirely for the amount a parent could receive under the Direct PLUS Loan program, which may be up to the difference between COA and EFA. Therefore, you should determine whether the parents may be able to borrow a Direct PLUS Loan by obtaining an endorser who does not have an adverse credit history before originating additional unsubsidized loan amounts for the dependent student.

Before a dependent student can receive the additional Direct Unsubsidized Loan amount, you must document the basis of the student's eligibility. Some basic guidelines for making this determination are discussed below.

- None of the following, by themselves, are sufficient to make a dependent student eligible for additional unsubsidized loans: the parent's unwillingness to borrow a Direct PLUS Loan, a school's decision not to participate in the Direct PLUS Loan program, or the aid administrator's belief that a parent should not borrow a Direct PLUS Loan.

- If only one of a student's parents has applied for a Direct PLUS Loan and been denied based on adverse credit, you may award additional Direct Unsubsidized Loan funds on that basis, without first determining whether there is another parent who could take out a Direct PLUS Loan. However, if both parents apply independently and one is approved and the other denied, the dependent student is not eligible for the additional unsubsidized loan amounts.

- The dependent student may become eligible at any time during an academic year if a parent has first been approved and then later denied a Direct PLUS Loan. For example, if a parent was approved for and received the full amount of a Direct PLUS Loan for a fall-spring loan period, but the parent is subsequently determined ineligible due to having an adverse credit history when they request additional Direct PLUS loan funds later during the spring semester, you may award additional Direct Unsubsidized Loan funds to the student. However, the Direct PLUS Loan funds that the parent previously received during the same period of enrollment must be treated as estimated financial assistance when determining the additional Direct Unsubsidized Loan amount that the student is eligible to receive.

In addition to cases in which a parent has been denied a Direct PLUS Loan due to adverse credit, a dependent undergraduate student may also be eligible for increased unsubsidized loan amounts if you determine and document the existence of other exceptional circumstances that would prevent a parent from borrowing a Direct PLUS Loan.

Note that you may award increased Direct Unsubsidized Loan amounts to a dependent undergraduate even if the student's parent previously applied for a Direct PLUS Loan and was found to not have an adverse credit history, if you determine that exceptional circumstances other than adverse credit would preclude the parent from borrowing and document the basis for the student's eligibility. Similarly, if you make such a determination before a parent has requested a Direct PLUS Loan, you may award the increased Direct Unsubsidized Loan funds to the dependent student without requiring the parent to apply for a Direct PLUS Loan.

Examples of such exceptional circumstances include, but are not limited, to the following:

- The parent is incarcerated.

- The parent's whereabouts are unknown.

- The parent has filed for bankruptcy and has provided a letter from the bankruptcy court stating that as a condition of the bankruptcy filing, the parent may not incur any additional debt.

- The parent's income is limited to public assistance or disability benefits, and you have documented that the parent would not be able to repay the Direct PLUS Loan.

- You have examined the family financial information and documented the parent's likely inability to repay the Direct PLUS Loan due to an existing debt burden or the parent's expected income-to-debt ratio.

- The parent of a dependent student is not a U.S. citizen or permanent resident or is not able to provide evidence from the U.S. Citizenship and Immigration Service that they are in the United States for other than a temporary purpose with the intention of becoming a citizen or permanent resident.

Before originating a loan for the increased Direct Unsubsidized Loan amounts based on a parent's ineligibility for a Direct PLUS Loan due to adverse credit or other exceptional circumstances, you must document the basis of the dependent student's eligibility.

A determination that a parent is ineligible for a Direct PLUS Loan in one academic year based on adverse credit or other exceptional circumstances does not automatically support the dependent student's additional unsubsidized loan eligibility in subsequent years. If a dependent student is determined to be eligible for additional unsubsidized loan amounts in one academic year, you must re-examine and document that the basis for the student's eligibility continues to exist before originating additional unsubsidized loan amounts for the dependent in a subsequent year.

Increased unsubsidized loan limits for certain health professions students

There are higher annual Direct Unsubsidized Loan limits for certain graduate and professional health professions students. Schools may award the increased unsubsidized amounts to students who are enrolled at least half time in certain health professions programs. The programs must be accredited by specific accrediting agencies. The increased unsubsidized amounts that an eligible health professions student may receive are in addition to the regular $20,500 Direct Unsubsidized Loan annual loan limit for graduate and professional students.

The programs that are eligible for the increased Direct Unsubsidized Loan amounts and the approved accrediting agencies for these programs are shown in the chart that follows this section. As shown in the chart, the increased unsubsidized loan annual limits vary by program and academic year length.

Graduate and professional students who qualify for the higher annual Direct Unsubsidized Loan limits are also eligible for a higher combined subsidized/unsubsidized aggregate loan limit. For details, see the "Aggregate Loan Limits" section later in this chapter.

Note: Foreign schools that participate in the Direct Loan Program may not award the increased Direct Unsubsidized Loan amounts to health professions students.

Health Professions Programs Eligible for:
Additional $20,000 in Unsubsidized Loans for an Academic Year Covering 9 months
Additional $26,667 in Unsubsidized Loans for an Academic Year Covering 12 months

Program	Approved Accrediting Agency
Doctor of Allopathic Medicine	Liaison Committee on Medical Education
Doctor of Osteopathic Medicine	American Osteopathic Association, Bureau of Professional Education
Doctor of Dentistry	American Dental Association, Commission on Dental Accreditation
Doctor of Veterinary Medicine	American Veterinary Medical Association, Council on Education
Doctor of Optometry	American Optometric Association, Council on Optometric Education
Doctor of Podiatric Medicine	American Podiatric Medical Association, Council on Podiatric Medical Education
Doctor of Naturopathic Medicine, Doctor of Naturopathy	Council on Naturopathic Medical Education

Health Professions Programs Eligible for:
Additional $12,500 in Unsubsidized Loans for an Academic Year Covering 9 months
Additional $16,667 in Unsubsidized Loans for an Academic Year Covering 12 months

Program	Approved Accrediting Agency
Doctor of Pharmacy	Accreditation Council for Pharmacy Education
Graduate program in Public Health (including Masters and Doctoral Degree programs in Public Health)	Council on Education for Public Health
Doctor of Chiropractic	Council on Chiropractic Education, Commission on Accreditation
Doctoral Degree in Clinical Psychology	American Psychological Association, Committee on Accreditation
Masters or Doctoral Degree in Health Administration	Commission on Accreditation of Healthcare Management Education

Note: Students in all of the programs on this page are also eligible for a higher aggregate limit for combined subsidized/unsubsidized loans. See the “Aggregate Loan Limits” section later in this chapter.

Proration of annual loan limit for academic year covering 10 or 11 months: For programs with an academic year covering 10 or 11 months, the annual additional unsubsidized loan limit must be prorated. If the academic year covers 10 or 11 months, the prorated annual loan limit is determined by dividing the applicable loan limit for an academic year covering nine months by nine, and then multiplying the result by 10 or 11.

Example of annual loan limit: The increased unsubsidized amounts that an eligible health professions student may receive are in addition to the regular Direct Unsubsidized annual loan limits. For example, a student enrolled in a 9-month Doctor of Dentistry program is eligible for the regular Direct Unsubsidized annual loan maximum for a graduate/professional student ($20,500 in unsubsidized), plus the maximum increased unsubsidized amount of $20,000, for a total Direct Unsubsidized Loan maximum of $40,500.

Graduate vs. undergraduate annual loan limits: special cases

- ***Combined undergraduate/graduate programs***

The regulations at 34 CFR 668.2(b) define "undergraduate student," in part, as a student "who is enrolled in an undergraduate course of study," and further specify that for purposes of dual degree programs (see below), a student is considered to be an undergraduate for at least the first three years of the program.

The regulations at 34 CFR 668.2(b) define a graduate or professional student as a student who is enrolled in a program or course above the baccalaureate level or in a professional program and who has completed the equivalent of three academic years of full-time study either prior to entering the program or as part of the program itself. Also, a student who is receiving Title IV aid as an undergraduate student can't be considered a graduate or professional student for that same period of enrollment.

To satisfy the requirement that a graduate or professional student has completed three academic years of full-time study, a student must have successfully completed a minimum of at least 72 credit/semester hours, or the equivalent number of quarter hours (at least 108). You may also assign a higher number of credits required to satisfy the credit requirement component to be considered a graduate or professional student at your school, for example, 90 credit/semester hours (which may match your school's grade level progression standard for Direct Loans). Note that these three academic year's worth of credits may be taken over a longer or shorter period of time than three calendar years in the program.

Some programs combine undergraduate and graduate study and allow a student to complete both a bachelor's degree and a graduate or professional degree within the same program. These are referred to as "dual degree programs." For instance, a school could offer a 5-year dual degree program leading to both a bachelor's degree and a graduate or professional degree, and could define the first three or four years of study as being at the undergraduate level, and the remaining year(s) of study as being at the graduate or professional level. A student may receive Title IV aid at the undergraduate level during the undergraduate portion of such a program.

Other programs lead **only** to a graduate or professional degree, but may admit students who do not yet meet the regulatory requirements to be considered graduate or professional degree students. A student who is enrolled in this type of program, but who does not yet qualify as a graduate or professional student, is not considered to be enrolled in an undergraduate program of study. Therefore, such a student **is ineligible to receive any type of Title IV aid** until they have completed at least three years of full-time study, which may be part of the graduate or professional degree program. Once the student has completed at least three years of full-time study, they are eligible to receive graduate-level Title IV aid.

- ***Students returning for second baccalaureate degree***

If a student with a baccalaureate degree enrolls in another baccalaureate program, the student's grade level for loan limit purposes would be based on the amount of work that the school counts toward satisfying the requirements of the new program. For instance, if your school accepts 30 semester hours of a student's work in a previous baccalaureate program toward the requirements for a BS in Chemistry at your school and, on that basis, classifies the student at the second-year level, then the student would be eligible for second-year undergraduate loan limits (see below for the loan limit that applies when a student is **required** to have a prior associates or baccalaureate degree as condition for being admitted to an undergraduate program).

- ***Transfer from graduate to undergraduate program during an academic year***

If a student transfers from a graduate program to an undergraduate program in the middle of an academic year, the undergraduate annual loan limit for the student's grade level applies, but amounts previously borrowed at the graduate level within the same academic year do not count against the undergraduate annual loan limit. However, the total amount awarded for the academic year may not exceed the higher (grad/professional) annual loan limit.

As an example, consider a student who received $10,250 in Direct Unsubsidized Loan funds for a fall semester loan as a graduate student, then enrolls in an undergraduate program in the spring semester and is classified as a third-year independent undergraduate. The school uses an SAY consisting of fall and spring semesters. As a third-year independent undergraduate, the student's annual loan limit is $12,500, not more than $5,500 of which may be subsidized. However, the student may not receive the full $12,500, since that amount, when added to the $10,250 the student received as a graduate student in the fall, would exceed the $20,500 graduate/professional student annual loan limit. Therefore, the student's maximum loan eligibility for the spring semester is $10,250, not more than $5,500 of which may be subsidized.

- ***Baccalaureate or associate degree required for admission to an undergraduate program***

For a student who has an associate or baccalaureate degree that is required for admission into a program, but who is not a graduate or professional student, the annual loan limit is the same as for a third-year and beyond undergraduate (see the "Annual Limits for Sub/Unsub Loans" chart earlier in this chapter).

MONITORING ANNUAL LOAN LIMIT PROGRESSION

Academic year and loan limits

The academic year (not the award year) is used as the basis for monitoring a student's annual loan limits. That is, a student may receive up to the applicable annual loan limit each academic year. The loan period is often the same as the academic year, though it may also be for a period shorter than the academic year (see *Chapter 1* of this volume for guidance on defining the academic year).

Two types of academic years for monitoring annual loan limits: SAY and BBAY

There are two types of academic years that may be used to monitor annual loan limits for Direct Subsidized Loans and Direct Unsubsidized Loans: a Scheduled Academic Year (SAY) or a Borrower-Based Academic Year (BBAY). (Note that although there is no fixed annual loan limit for Direct PLUS Loans, Direct PLUS Loans are awarded for the same SAY or BBAY period that is used for Direct Subsidized Loans and Direct Unsubsidized Loans.)

An SAY corresponds to a traditional academic year calendar that is published in a school's catalog or other materials, and is a fixed period of time that begins and ends at the same time each year. Examples of SAYs for a standard term program are fall and spring semesters, or fall, winter, and spring quarters. If a program has SE9W nonstandard terms, an SAY could consist of two or more SE9W nonstandard terms running from fall through spring. For both standard term and SE9W nonstandard term programs, the number of credit hours and weeks of instructional time in the fall through spring SAY period must meet the regulatory requirements for an academic year.

A BBAY does not have fixed beginning and ending dates. Instead, it "floats" with a student's (or group of students') attendance and progression in a program of study. There are three types of BBAY, described below.

If a program is offered in an SAY calendar, you have the option of using either an SAY or BBAY 1 to monitor the annual loan limits for students in that program. You **must** use a BBAY to monitor the annual loan limits for any academic program that does not meet the definition of a program allowed to use an SAY. However, there are significant differences between the different types of BBAY:

- **BBAY 1,** for credit-hour programs using an SAY with standard terms or SE9W nonstandard terms (including subscription-based programs, as described in *Chapter 1* of this volume).
- **BBAY 2**, for credit-hour programs not using an SAY, with standard terms or SE9W nonstandard terms (including subscription-based programs, as described in *Chapter 1* of this volume).
- **BBAY 3**, for clock-hour programs, non-term programs, programs with nonstandard terms that are not SE9W, or programs with standard and nonstandard terms not described above.

We describe the differences between SAY, BBAY 1, BBAY 2, and BBAY 3 in more detail on the following pages.

SAY for credit-hour programs using standard terms with traditional academic calendar or using SE9W nonstandard terms with comparable calendar

SAY with standard terms

As noted previously, an SAY corresponds to a traditional academic year calendar, and usually begins and ends at the same time each calendar year (for example, beginning on the first day of the fall semester and ending on the last day of the spring semester). An SAY must meet the FSA requirements for an academic year (as defined in *Chapter 1*). An SAY may include one or more terms that a student does not attend.

Standard terms are semesters, trimesters, or quarters. See *Chapter 1* of this volume for more detail on standard terms. A standard-term program may use an SAY if it has a traditional academic calendar (i.e., has terms that start and end at about the same time each year, such as an academic calendar consisting of the fall and spring semesters or the fall, winter, and spring quarters).

Summer terms are generally not considered to be part of the SAY, but for loan limit purposes they may be treated as a “trailer” to the preceding SAY or as a “header” to the following SAY. Your school has the option to establish a policy that designates its summer term as either a trailer or header to the SAY for all students. You can also choose to make different designations for different educational programs, or for different students, as long as you ensure that there is no overlap in academic years. Note that a fixed designation of the summer term can limit a student’s eligibility. For instance, if you always treat your summer term as a trailer to a preceding fall-spring SAY, a student who receives the full annual loan limit for fall-spring would have no remaining loan eligibility for summer.

If the summer term is split into minisessions (e.g., “summer 1” and “summer 2”), the minisessions can be combined and treated as a single trailer or header, or they can be treated separately and assigned to different SAYs. If the summer minisessions are grouped together and treated as a single term, the summer COA cannot include costs for a minisession for which the student is not expected to be enrolled.

The annual loan limit applies to the SAY, plus the summer trailer or header. For example, if the SAY consists of fall and spring semesters followed by a summer trailer, a student could receive a full annual loan limit for the fall-spring-summer period. Once the calendar period associated with all of the terms in the SAY and the summer header or trailer (if any) has elapsed, a student regains eligibility for a new annual loan limit.

SAY with SE9W nonstandard terms

A program with SE9W nonstandard terms may use an SAY if all of the following requirements are met:

- it has a fixed academic calendar comparable to a traditional academic calendar (i.e., terms that start and end at about the same time each year, with the academic year comprised of two or more

SE9W nonstandard terms in the fall through spring);

- all of the nonstandard terms, including any summer term, are SE9W; and
- the number of credit hours and weeks of instructional time in the comparable fall-spring academic calendar meet the regulatory requirements for an academic year.

SE9W SAY example

Baez Business College has programs with an academic calendar using semester hours with three 12-week quarters, offered over the fall through spring (comparable to a traditional academic year calendar) and a 10-week term offered in the summer. Baez defines its academic year as 36 weeks of instructional time and 24 semester hours. As "quarters" using semester hours, the terms are nonstandard terms.

Because these terms are SE9W nonstandard terms offered in a fixed schedule with an academic calendar comparable to a traditional calendar, Baez may use an SAY (with the summer term treated as a trailer or header) or BBAY 1 (consisting of any three consecutive terms) for these programs.

BBAY 1 for credit-hour programs with SAY

If a program is offered in a SAY, you have the option of using a BBAY (BBAY 1) as an alternative to the SAY for monitoring annual loan limit progression. Unlike an SAY, a BBAY is not a fixed period that begins and ends at the same time each year. Instead, a BBAY's beginning and ending dates depend on the individual student's enrollment.

For programs with an SAY, a BBAY must include the same number of terms as the SAY that would otherwise be used (not including any summer "trailer" or "header"). For example, if the SAY includes three quarters (fall, winter, spring), a BBAY would consist of any three consecutive terms. A BBAY may include terms the student does not attend if the student could have enrolled **at least half-time** in those terms, but (unlike an SAY) it must begin with a term in which the student is actually enrolled (even though the student may be enrolled less than half time for the first term and not eligible for a loan for that term). Also, any minisessions (summer or otherwise) that run consecutively within a term **must** be combined and treated as a single term.

Like an SAY, a BBAY must meet the minimum FSA requirements for an academic year. However, a BBAY that includes a summer term may include fewer than 30 weeks of instructional time or fewer credit hours than the minimum number required for an SAY. This is because a summer term may be shorter than a standard term in an SAY, but is recognized as academically equivalent to a standard term when used as one of the terms in a BBAY. (Note: This exception applies only to a BBAY used as an alternative for a program with an SAY.)

You may use BBAYs for all students, only for students in certain programs, or on a student-by-student basis. For example, you could use a BBAY for students enrolled in a program that begins in a term other than the first term of the SAY. You can even alternate BBAYs and SAYs for a student, provided the academic years don't overlap. This treatment may allow a student to receive another loan sooner than would be allowed under an SAY standard.

As with an SAY, the annual loan limit applies to the BBAY. Once the calendar period associated with all of the terms in the BBAY has elapsed, a student regains eligibility for a new annual loan limit.

Alternating SAY/BBAY 1

This treatment may allow a student to receive another loan sooner than would be allowed with an SAY. For instance, if you normally use an SAY consisting of fall and spring semesters with a summer trailer, a student who received the maximum annual loan limit for fall-spring could not receive another loan until the start of a new SAY in the fall. If the student enrolls for summer and wants a loan, you could choose to switch the student to a BBAY consisting of the summer and fall terms. The student could then receive a loan for the summer term, which would be the start of a new academic year. A school that provides flexibility in academic year standards for purposes of monitoring annual loan limits must have a written policy that explains how it applies this flexibility when determining loan eligibility.

BBAY 2 for standard-term programs and SE9W nonstandard term programs without SAY

If a program with standard terms or SE9W nonstandard terms is not offered in a traditional academic year calendar (SAY), BBAY 2 **must** be used. If the program uses semesters or trimesters, a BBAY consists of any two consecutive terms. If the program uses quarters, a BBAY consists of any three consecutive terms. If the program uses SE9W nonstandard terms, a BBAY consists of the number of consecutive terms that coincide with the weeks of instructional time in the program's academic year.

As with the optional BBAY 1 that may be used for programs with an SAY, BBAY 2 may include terms that a student does not attend (as long as the student could have enrolled at least half-time in those terms), but it must begin with a term in which the student is actually enrolled (even though the student may be enrolled less than full time for the first term and not eligible for a loan for that term). Unlike the optional BBAY 1 for programs offered in an SAY, there is no exception to the minimum academic year requirements for a BBAY 2 that includes a summer term: the BBAY 2 for standard-term programs that are not offered in a traditional academic calendar, or for SE9W nonstandard term programs not offered in a comparable academic calendar, must always include enough terms to meet the minimum Title IV academic year requirements for weeks of instructional time.

The annual loan limit applies to the BBAY 2. Once the calendar period associated with all of the terms in the BBAY 2 has elapsed, a student regains eligibility for a new annual loan limit.

Standard term, credit-hour programs not using a traditional academic year calendar: BBAY 2

Soler Academy has a program that measures academic progress in credit hours and uses 15-week semesters, but it is not offered in a traditional academic year calendar (SAY). New students begin the program each month, and a 15-week semester begins at that time for that cohort of students. The school must use BBAY 2 to monitor annual loan limits. A BBAY consists of any two consecutive semesters, beginning with a semester in which a student is enrolled:

Semester #1 (begins program)	Semester #2	Semester #3	Semester #4 (not enrolled)	Semester #5	Semester #6
First BBAY		Second BBAY		Third BBAY	

BBAY 3 for clock-hour, non-term credit-hour, and non-SE9W nonstandard-term programs

All clock-hour programs, non-term credit-hour programs, and non-SE9W nonstandard-term programs must use a BBAY 3 that meets the minimum requirements for an academic year. That is, the BBAY must contain at least 30 (or, for clock-hour programs, 26) weeks of instructional time and at least the minimum number of credit or clock hours:

- For undergraduate programs, 24 semester or trimester hours, 36 quarter hours, or 900 clock hours;

- For graduate programs, the number of hours a student would complete under the school's full-time standard in the weeks of the Title IV academic year, which must be a minimum of 30 weeks of instructional time for credit-hour programs, or at least 26 weeks of instructional time for clock-hour programs.

The BBAY 3 begins when a student enrolls and does not end until the later of the date the student successfully completes the hours in the academic year or the number of weeks of instructional time in the academic year. Because a student must successfully complete the minimum number of hours or weeks of instructional time in an academic year (whichever comes later) before a new BBAY 3 begins, a student's enrollment status may affect how soon the student regains eligibility for a new annual loan limit. For example, a student who is attending part time will take longer to complete a BBAY 3 than a full-time student. (In contrast, an SAY, BBAY 1, or BBAY 2, ends when the calendar period associated with the terms in the SAY or BBAY has elapsed, regardless of how many credit hours or weeks of instruction the student completed during the SAY or BBAY.)

Individual academic progress in BBAY 3

In many clock-hour, non-term, and nonstandard-term programs, students are allowed to progress at an individual pace. For example, a school that defines its academic year as 900 clock hours and 26 weeks of instructional time offers a 900 clock-hour program that most students complete in 26 weeks. However, one student might complete 900 clock hours in 22 weeks, and another in 30 weeks.

As we explain later in this chapter, the annual loan limit must be prorated (reduced) if an undergraduate student is enrolled in a program that is less than a full academic year in length, or is in a remaining period of study that is shorter than a full academic year. However, in the scenario described here you do not have to prorate the loan limit for the occasional student who completes the program in fewer than 26 weeks. This policy applies only to programs that are exactly one academic year in length. If a program is longer than an academic year, proration may be required for a loan covering the remaining portion of the program if a student completes more than the minimum number of hours during the first 26 weeks of instructional time. See loan limit proration Example 3 later in this chapter.

BBAY 3 for programs with both standard and nonstandard terms

BBAY 3 must also be used if a program has both standard terms and nonstandard terms and does not qualify to use an SAY. For example, if you offer a program with a 4-week intersession between a 15-week fall semester and a 15-week spring semester, and you do not combine the intersession with one of the standard terms but instead treat it as a standalone nonstandard term, you would be required to use BBAY 3 to monitor annual loan limit progression. In this circumstance it is not permissible to simply ignore the intersession and consider the program to be offered only in standard terms. In contrast, if you combine the intersession with one of the semesters, you could use an SAY consisting of the fall and spring semesters.

The “Monitoring Annual Loan Limits with an SAY or BBAY” chart that follows compares the SAY, BBAY 1, BBAY 2, and BBAY 3 academic year types in a side-by-side format.

Monitoring Annual Loan Limits with an SAY or BBAY

Credit-hour programs offered in a Scheduled Academic Year (SAY) An SAY uses 1) a traditional academic calendar with at least two semesters or trimesters or three quarters in the fall through spring, or 2) a comparable academic calendar with SE9W nonstandard terms, if **a)** all of the nonstandard terms, including the summer term, are SE9W, and **b)** the number of hours/weeks in the comparable fall-spring academic calendar meets the regulatory requirements for an academic year.		**Credit-hour programs not offered in an SAY, but with 1) standard terms, or 2) SE9W nonstandard terms**	**Clock-hour programs, non-term programs, programs with non-SE9W nonstandard terms, and programs that mix standard and nonstandard terms and do not qualify to use an SAY**
May use SAY	May use BBAY 1	Must use BBAY 2	Must use BBAY3

• SAY generally begins/ends at same time each year.
• Student does not have to be enrolled in first term of SAY.
• SAY must at least meet program's Title IV academic year in weeks/hours.
• Total of all loans received within SAY (including summer trailer/header) may not exceed annual loan limit
• Student becomes eligible for new annual loan limit after SAY calendar period has elapsed.
• After original loan, student may receive additional loans during same SAY if:
  • Student did not receive maximum annual loan amount and has remaining eligibility;
  • Student progresses to grade level with higher annual loan limit; or
  • Student changes from dependent to independent.
• Summer term may be "trailer" or "header" per:
  • Strict policy;
  • By program; or
  • Case-by-case, by student.
	• May use BBAY 1 for all students; certain students; or certain programs.
	• May alternate SAY and BBAY 1 for a student provided academic years do not overlap.
	• BBAY 1 floats with student's enrollment.
	• Student must be enrolled in first term of BBAY 1 (may be less than half time).
	• Length of BBAY 1 must equal number of terms in program's SAY, excluding summer trailer/header.
	  • Number of hours/weeks in BBAY 1 need not meet regulatory requirements for academic year if BBAY 1 includes summer term.
	  • May include terms student does not attend (except first term) if student could have enrolled at least half time.
	• Total of all loans received within BBAY 1 may not exceed annual loan limit.
	• Student becomes eligible for new annual loan limit after BBAY 1 calendar period has elapsed.
	• After original loan, student may receive additional loans during same BBAY 1 if:
	  • Student did not receive maximum annual loan amount and has remaining eligibility;
	  • Student progresses to grade level with higher annual loan limit; or
	  • Student changes from dependent to independent.
	• Minisessions (summer or otherwise) must be combined with each other or with other terms and treated as a single standard or nonstandard term (affects all FSA programs).
	  • Student need not enroll in each minisession, but must have been able to enroll at least half time in the combined term.
		• BBAY 2 floats with student's enrollment.
		• Student must be enrolled in first term of BBAY 2 (may be less than half time).
		• BBAY 2 may include terms student does not attend (except first term) if student could have enrolled at least half time
		• BBAY 2 must meet at least the minimum requirements for hours/weeks of program's Title IV academic year, and must consist of:
		  • At least 2 consecutive semesters or trimesters;
		  • At least 3 consecutive quarters; or
		  • At least the number of consecutive SE9W nonstandard terms covered by program's Title IV academic year.
		• Total of all loans received within BBAY 2 may not exceed annual loan limit.
		• Student becomes eligible for new annual loan limit after BBAY 2 calendar period has elapsed.
		• After original loan, student may receive additional loans during same BBAY 2 if:
		  • Student did not receive maximum annual loan amount and has remaining eligibility;
		  • Student progresses to grade level with higher annual loan limit; or
		  • Student changes from dependent to independent.
		• Minisessions (summer or otherwise) must be combined with each other or with other terms and treated as a single standard term (affects all FSA programs).
		  • Student need not enroll in each minisession, but must have been able to enroll at least half time in the combined term.
			• BBAY 3 floats with student's enrollment.
			• BBAY 3 begins with student's enrollment on at least a half-time basis.
			• BBAY 3 must meet at least the minimum requirements for hours/weeks of program's Title IV academic year.
			• Total of all loans received within BBAY 3 may not exceed annual loan limit.
			• Student becomes eligible for new annual loan limit only after successfully completing clock or credit hours AND weeks of instructional time in BBAY 3.
			• Student may not become eligible for next grade level annual loan limits until after completion of BBAY 3.
			• After original loan, student may receive additional loans within BBAY 3 only if:
			  • Student did not receive maximum annual loan amount and has remaining eligibility; or
			  • Student changes from dependent to independent.

Standard term, credit-hour programs using a traditional academic year calendar: BBAY 1

1. BBAY where SAY contains 2 semesters

Examples *1a* through *1c* illustrate the optional use of BBAY 1 for a program that is offered in an SAY consisting of two semesters, fall and spring, each 15 weeks of instructional time in length. (Note that in each example, the first BBAY is the same as the SAY.)

In example 1a, the initial fall and spring terms could be considered either an SAY or BBAY. If the student attends the summer session at the school, the aid administrator can elect to treat the summer term and the next fall as a BBAY for the student. In that case, the following spring and summer would also constitute a BBAY. The maximum loan limit for an academic year applies to each BBAY. If these were the first three years of study for a dependent student who progressed a grade level each academic year, the student would be eligible for up to the applicable annual loan limit each academic year.

1a.

Fall	Spring	Summer	Fall	Spring	Summer
Year 1: SAY or BBAY		Year 2: BBAY		Year 3: BBAY	

A student doesn't have to attend all of the terms in a BBAY, but the BBAY cannot begin with a term that the student doesn't attend. In example 1b, the student is not enrolled in the second term (fall) of year 2.

In example 1c, if the student does not attend a term that otherwise would have been the beginning of a BBAY (in this case, spring), then the student's next BBAY cannot begin until the next term that the student attends. As with example 1a, the annual loan limit applies to each BBAY.

1b.

Fall	Spring	Summer	Fall (not enrolled)	Spring	Summer
Year 1: SAY or BBAY		Year 2: BBAY		Year 3: BBAY	

1c.

Fall	Spring	Summer	Fall	Spring (not enrolled)	Summer	Fall
Year 1: SAY or BBAY		Year 2: BBAY			Year 3: BBAY	

2. BBAY where SAY contains 3 quarters

The same concepts apply to quarter-term programs. For instance, in example 2, the fall, winter, and spring terms constitute the school's SAY. If the student attends the summer session at the school, it can be the first term of a BBAY that includes the following fall and winter terms.

Fall	Winter	Spring	Summer	Fall	Winter
Year 1: SAY or BBAY			Year 2: BBAY		

BBAY 3 for clock-hour, non-term, and non-SE9W nonstandard-term programs

Example: Clock-hour program

Soler Academy has an 1,800 clock-hour program with 52 weeks of instructional time, and defines its academic year as 900 clock hours and 26 weeks of instructional time. The first BBAY 3 begins with a student's initial enrollment date and ends when the student has successfully completed the first 900 clock hours and 26 weeks of instructional time in the program, whichever comes later. The second BBAY 3 would be the period of time it takes the student to successfully complete the final 900 hours and 26 weeks of instructional time in the program. A student who completes the first 900 hours in less than 26 weeks must still complete 26 weeks of instructional time before the second BBAY 3 begins. Similarly, a student who has completed fewer than 900 clock hours after 26 weeks of instructional time must successfully complete 900 hours before the second BBAY 3 begins.

During the first BBAY 3, the student may receive up to the full annual loan limit for a first-year undergraduate. The student becomes eligible for a new annual loan limit (at the second-year undergraduate level) when the second BBAY 3 begins.

The same principles described above for a clock-hour program would also apply to a non-term credit-hour program, or a non-SE9W nonstandard term credit-hour program. For example, if a school offers a non-term 48 semester hour, 60 weeks of instructional time program with a defined academic year of 24 semester hours and 30 weeks of instructional time, the second BBAY 3 would not begin until a student has successfully completed the first 24 semester hours and 30 weeks of instructional time.

Similarly, in a 72 quarter-hour program with 60 weeks of instructional time offered in a series of non-SE9W nonstandard terms, with a defined academic year of 36 quarter hours and 30 weeks of instructional time, the second BBAY 3 would not begin until a student has successfully completed the first 36 quarter hours and 30 weeks of instructional time, whichever comes later, regardless of the number of terms that have elapsed. For instance, a student who successfully completes only 33 quarter hours in the first 30 weeks of instructional time must successfully complete an additional three quarter hours before the second BBAY 3 begins and the student becomes eligible for a new annual loan limit at the second-year undergraduate level.

ANNUAL LOAN LIMIT INCREASE BASED ON GRADE LEVEL PROGRESSION

The annual loan limit for Direct Subsidized and Unsubsidized Loans increases as a student progresses in grade level. Generally, a student's grade level for loan limit purposes is set according to the school's academic standards.

While the law defines minimum coursework for an academic year, it doesn't define how much coursework a student must complete to progress from one grade level to another. Unless a student's program of study or a school's academic standards clearly specify when this grade-level progression takes place, a reasonable approach would be to base grade levels on the number of credits required for the program, divided by the number of academic years it takes a typical student to earn that number of credits. For instance, if your school has a baccalaureate program that requires 120 semester hours of work and is typically completed in four academic years, then you might use a standard of 30 hours completed at each grade level.

Grade level progression within same academic year: standard term and SE9W nonstandard term programs

In standard term programs or SE9W nonstandard term programs, a student who has already received the full annual limit within an academic year can receive additional loan funds if the student progresses to a grade level with a higher annual loan limit during that same academic year. (See *Volume 3*, *Chapter 1* for a discussion of academic year requirements.)

For instance, consider a dependent student who was classified as a second-year undergraduate at the beginning of the academic year and who received a first disbursement of $3,250 in Direct Subsidized/Unsubsidized Loan funds at the beginning of the fall term of a fall-spring SAY. If the student progresses to third-year academic status at the beginning of the spring term based on the coursework completed in the fall semester, the student would now be eligible for the $7,500 Direct Subsidized/Unsubsidized annual limit that applies to third-year and beyond dependent undergraduates. If otherwise eligible, for the spring term the student could receive up to the difference between the amount already received in the fall and the new annual limit in the spring term ($7,500 minus $3,250 = $4,250). However, only the COA and EFA associated with the spring term can be used in determining the student's eligibility for the additional loan amount in that term. The COA and EFA for the fall term cannot be considered.

Grade level progression: clock-hour, non-term credit hour, and non-SE9W nonstandard term programs

In contrast to standard term and SE9W nonstandard-term program, progression to a higher grade level and the beginning of a new BBAY for loan limit purposes always happens at the same time for a student in a clock-hour program, non-term program, or non-SE9W nonstandard-term program. In order to advance to the next grade level for annual loan limit purposes, a student must successfully complete both the weeks and hours in the program's Title IV academic year. That is, the student must complete at least 30 weeks of instructional time (or, for clock-hour programs, at least 26 weeks) and the number of credit or clock hours in the academic year, whichever comes later. For instance, a first-year student in a two-year non-term program with a defined academic year of 36 quarter hours and 30 weeks of instructional time who earns 36 quarter credits over 24 weeks of instructional time cannot progress to the next grade level (and begin a new BBAY for annual loan limit purposes) until another six weeks of instructional time are completed.

Increasing the loan when grade level changes during academic year

There are two options for awarding an additional loan amount when a student progresses to a grade level with a higher annual loan limit during an academic year:

1. Originate a new loan at the new grade level for the applicable amount (the difference between the new loan limit and the amount of the first loan). The loan period for the new loan must correspond to the term(s) during which the student qualifies for the higher loan limit. You could also choose to cancel any pending disbursements of the first loan and originate a new loan for an amount equal to the canceled disbursements of the first loan plus the additional amount for which the student is eligible due to the grade level change.

2. Adjust the amount of the current loan. Change the grade level in the loan record and increase the amount of the existing loan to the new amount.

With either option, the student's remaining loan eligibility must be calculated using only the costs and estimated financial assistance for the term(s) during which the student qualifies for the higher loan limit.

As a reminder, a student can progress to a higher grade level during an academic year only in a program with standard terms or SE9W nonstandard terms.

New annual amount for same grade level

Progression to a higher grade level does not always coincide with the beginning of a new academic year. For both standard-term programs and SE9W nonstandard term programs, if a student is enrolled at the same grade level after a full academic year has elapsed, the student may be eligible for a new annual maximum amount at the same grade level, provided that the student maintains satisfactory academic progress. For example, a student in a standard term or SE9W nonstandard term program who completes only 12 semester hours during the first SAY, BBAY 1, or BBAY 2 could receive another loan when the calendar period associated with that academic year has elapsed, but the borrower would still be classified as a first-year undergraduate at the start of the second academic year.

As long as a student is maintaining satisfactory academic progress, your school is not permitted to have a general policy that limits the number of times the student can receive the maximum annual loan limit at one grade level. A school may refuse to originate a loan or may originate a loan for an amount less than the borrower's maximum eligibility only on a case-by-case basis.

Remedial work and grade level

Remedial coursework can be counted towards the student's grade level progression, but only if the school's written and officially approved academic grade level progression policy specifies that remedial coursework can be counted for this purpose. Example: A school requires that the student complete 30 semester hours to progress to second-year grade level, and specifies that up to 10 of the hours may be in the form of remedial coursework.

Transfers and grade level

If you're awarding a Direct Loan to a student who is transferring from a program at another school to a program at your school that is greater than one academic year in length, you may use the loan limits for a second-year or higher undergraduate if your school classifies the student at that level based on the number of academic credits it accepts from the prior school, or based on the granting of advance standing in the new program. Note, however, that if the student already has an associate or bachelor's degree and if that degree is required for entry into a program at your school, you ***must*** use the third-year and beyond undergraduate loan limits for a student who transfers to that program.

Increasing loan amount when student changes dependency status during academic year

For any type of educational program (whether term-based or non-term, credit-hour or clock-hour), a dependent student who has already borrowed up to the annual loan limit within an academic year may be eligible to receive additional loan funds if their dependency status changes to independent during that same academic year.

Loan proration
34 CFR 685.203(a),(b),(c)

PRORATING ANNUAL LOAN LIMITS FOR DIRECT SUBSIDIZED/UNSUBSIDIZED LOANS (UNDERGRADUATE ONLY)

The annual maximum loan amount an undergraduate student may receive must be prorated when the borrower is:

- enrolled in a program that is shorter than a full academic year; or
- enrolled in a program that is one academic year or more in length, but is in a remaining period of study (a period of study at the end of which a student will have completed all requirements of the program) that is shorter than a full academic year.

The annual loan limits for Direct Subsidized Loans and Direct Unsubsidized Loans are prorated only in these two situations (see the later discussion under "Proration of the annual loan limit for students who graduate early from clock-hour programs" for details on a limited exception). Loan limits are not prorated based on a student's enrollment status, such as when a student is enrolled less than full time or is enrolled for a period of less than a full academic year that is not a remaining period of study. In addition, the annual loan limit for Direct Unsubsidized Loans is not prorated for students enrolled in graduate or professional level programs.

Loan proration requirements also do not apply to students taking preparatory coursework or coursework necessary for teacher certification. The annual loan limit must be prorated only when a student is enrolled in a program or remaining portion of a program that is shorter than an academic year. For purposes of awarding Title IV aid, students taking preparatory coursework or coursework needed for teacher certification are not considered to be enrolled in a program.

It's important to understand that loan limit proration determines the maximum loan amount that a student may borrow for a program or remaining balance of a program, not the loan amount that the student actually receives. In some cases, the actual loan amount that a student is eligible to receive (based on costs, EFC, and other aid) may be less than the prorated loan limit.

Prorating loan limits for programs of study shorter than a full academic year

If an academic program is shorter than a full academic year in length, you must multiply the applicable loan limit(s) by the *lesser* of —

$$\frac{\text{Semester, trimester, quarter, or clock-hours enrolled in program}}{\text{Semester, trimester, quarter, or clock-hours in academic year}}$$

or

$$\frac{\text{Weeks enrolled in program}}{\text{Weeks in the academic year}}$$

The result is the prorated annual loan limit for that program. (You may express these fractions as decimals to see more easily which is less or to calculate the prorated limit. For more information, see "Use of fractions vs. decimals when prorating loan limits" later in this chapter.)

Prorating loan limits for remaining periods of study shorter than an academic year

You must also prorate loan limits for students enrolled in remaining periods of study shorter than an academic year. This circumstance can occur when a student is enrolled in a program that is one academic year or more in length, but the remaining period of study needed to complete the program (also sometimes called a "final" period of study) will be shorter than an academic year. Proration is required only when you know in advance that a student will be enrolled for a final period of study that is shorter than an academic year. If a student originally enrolls for a final period of study that is a full academic year in length, but completes the program early in less than a full academic year, you're not required to retroactively prorate the annual loan limit (but see the discussion under "Proration of the annual loan limit for students who graduate early from clock-hour programs" later in this chapter for a limited exception to this general rule).

In a *standard-term program, or a credit-hour program using SE9W nonstandard terms,* a remaining period of study is considered shorter than an academic year if the remaining period contains fewer terms than the number of terms covered by the school's Title IV academic year. For programs that are offered in an SAY, the number of terms covered in the school's Title IV academic year usually does not include a summer "header" or "trailer" term.

For standard-term programs or credit-hour programs with SE9W nonstandard terms, the length of the loan period does not determine whether a student is enrolled in a remaining period of study that is shorter than an academic year. The determining factor is the length of the remaining period of study in which the student is enrolled, which may not be the same as the loan period. For example, if an undergraduate student is enrolled for a full SAY consisting of fall and spring semesters, and will complete the program at the end of the spring term, but is enrolled less than half time during the spring, the student is eligible to receive a Direct Loan only for the fall semester. Although the loan period (fall only) would be shorter than an academic year, the remaining period of study (fall through spring) is a full academic year. Therefore, if the student receives a Direct Loan in the fall, proration of the annual loan limit is not required.

In a *clock-hour program, non-term program, or a program with non-SE9W nonstandard terms,* a remaining period of study is considered less than an academic year if it consists of fewer clock or credit hours than the program's defined Title IV academic year. In contrast to standard term and SE9W nonstandard term programs, if a student enrolled in a clock-hour, non-term, or non-SE9W nonstandard term program is in a remaining period of study shorter than an academic year and receives a Direct Loan, the loan period and the remaining period of study will always be the same. This is because for these programs the minimum loan period is the lesser of the length of the program (or remaining portion of a program) or the academic year.

For all types of programs, where there is a remaining period of study less than an academic year, the annual loan limit for the student's grade level is multiplied by the following fraction to determine the prorated loan limit:

$$\frac{\text{Semester, trimester, quarter, or clock-hours enrolled in program}}{\text{Semester, trimester, quarter, or clock-hours in academic year}}$$

Unlike proration for programs that are shorter than an academic year, there is no comparison of weeks and hours. *Only the credit or clock hours that the student is scheduled to attend or is actually attending at the time of origination are used in the calculation.*

Separate calculations for combined subsidized/unsubsidized annual loan limit and maximum subsidized annual loan limit

As explained earlier in this chapter, for undergraduate students there is a maximum combined annual loan limit for Direct Subsidized Loans and Direct Unsubsidized Loans, and a maximum portion of that combined annual loan limit that a student may receive in Direct Subsidized Loans.

If the annual loan limit for an undergraduate student must be prorated, you must first determine the combined Direct Subsidized Loan and Direct Unsubsidized Loan prorated annual loan limit, and then separately determine the Direct Subsidized Loan prorated annual loan limit. This is illustrated in the proration examples that follow.

Prorating annual loan limits for borrowers in remaining portions of term-based programs

A student who is enrolled in a four-year program that is offered in an SAY consisting of three quarters plus a summer "trailer" has completed four academic years of study. However, the student needs to attend an additional quarter term to complete the program requirements. The final quarter term would fall in a new academic year, and thus the annual loan limit would have to be prorated, because the remaining period of study (a single quarter) is less than a full academic year.

A student who is enrolled in a two-year program not offered in an SAY where the Title IV academic year covers two 15-week semesters has completed two academic years of study, but needs to return for an additional semester to complete the program requirements. Again, the loan limit would have to be prorated if the student receives a loan for the final semester.

Use of fractions vs. decimals when prorating loan limits

It is acceptable to convert the fraction to a decimal and then multiply the annual loan limit by the decimal, but this conversion is not a requirement. Although in the following examples the fractions are converted to decimals, you may choose to multiply the annual loan limit by the original fraction. However, you should be consistent in the method you use, since the fraction and decimal calculations sometimes result in slightly different prorated loan limits.

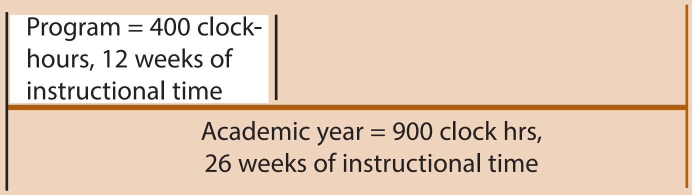
For instance, using the decimal 0.44 in Example 1 below results in a prorated loan limit of $2,420. In contrast, using the fraction 400/900 would result in a slightly higher prorated loan limit of $2,444. In Example 2, using the decimal 0.67 results in a prorated loan limit of $6,365. Using the fraction 24/36 would result in a slightly lower prorated loan limit of $6,333.

Using school's definition of academic year if longer than the Title IV minimum

A school may choose to define its academic year as longer in weeks or hours than the minimum statutory requirements. If so, the school's standard – not the statutory minimum – determines whether a program or a final period of study is shorter than an academic year.

Proration examples for programs shorter than an academic year

Example 1



Jill is a dependent student enrolled in a 400 clock-hour, 12-week program at Epstein Career College (ECC). ECC defines the academic year for this program as 900 clock hours and 26 weeks of instructional time.

To determine the maximum loan amount she can borrow, convert the fractions based on weeks (12/26 = 0.46) and hours (400/900 =0 .44) to decimals. Multiply the smaller decimal (0.44) by the combined Direct Subsidized Loan and Direct Unsubsidized Loan annual loan limit for a first-year dependent undergraduate ($5,500, not more than $3,500 of which may be subsidized):

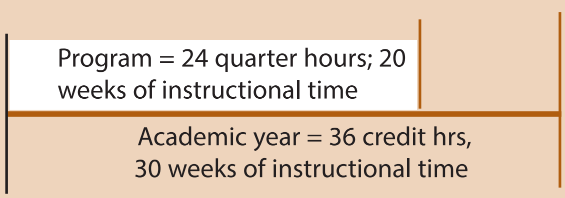
$5,500 x 0.44 = $2,420 combined subsidized/unsubsidized prorated annual loan limit

To determine the maximum portion of the $2,420 prorated annual loan limit that Jill may receive in subsidized loan funds, multiply the maximum subsidized annual loan limit of $3,500 by the smaller decimal (0.44):

$3,500 x 0.44 = $1,540 subsidized prorated annual loan limit

The maximum combined Direct Subsidized Loan and Direct Unsubsidized Loan amount Jill can borrow for the program is $2,420, but no more than $1,540 of this amount may be in subsidized loans.

Example 2



Morgan is an independent student enrolled in a 24 quarter-hour, 20-week program at Epstein Career College. ECC defines the academic year for this program as 36 quarter hours and 30 weeks of instructional time. To determine the maximum loan amount she can borrow, convert the fractions based on weeks (20/30 = 0.67) and quarter-hours (24/36 = 0.67) to decimals. Multiply the smaller decimal (in this case, both are 0.67) by the combined Direct Subsidized Loan and Direct Unsubsidized Loan annual loan limit for a first-year independent undergraduate ($9,500, not more than $3,500 of which may be subsidized):

$9,500 x 0.67 = $6,365 combined subsidized/unsubsidized prorated annual loan limit

To determine the maximum portion of the $6,365 prorated annual loan limit that Morgan may receive in subsidized loan funds, multiply the maximum subsidized annual loan limit of $3,500 by the same decimal (0.67):

$3,500 x 0.67 = $2,345 subsidized prorated annual loan limit

The maximum combined Direct Subsidized Loan and Direct Unsubsidized Loan amount Morgan can borrow for the program is $6,365, not more than $2,345 of which may be in subsidized loans.

Proration examples for remaining period of study shorter than an academic year

Example 1: Academic year contains 3 quarters
Remaining period = 1 quarter

Fall	Winter	Spring
Fall	Winter	Spring
Fall	Winter	Spring

Chuck has attended six quarters in a 2-year program at Hartlieb Community College (HCC), but to finish the program, he needs to attend an additional quarter as a half-time student (six quarter hours). Chuck is a dependent undergraduate student, and HCC defines its academic year (covering three quarters) as 36 quarter hours and 30 weeks of instructional time.

To determine the prorated Direct Loan limit for Chuck's remaining period of study, convert the fraction based on the hours that Chuck is expected to attend and the hours in the academic year to a decimal (6/36 = 0.17).

Multiply this decimal by the combined Direct Subsidized Loan and Direct Unsubsidized Loan annual loan limit for a dependent second-year undergraduate ($6,500, not more than $4,500 of which may be subsidized):

$6,500 x 0.17 = $1,105 combined subsidized/unsubsidized prorated annual loan limit

To determine the maximum portion of the $1,105 prorated annual loan limit that Chuck may receive in subsidized loan funds, multiply the maximum subsidized annual loan limit of $4,500 by the same decimal (0.17):

$4,500 x 0.17 = $765 subsidized prorated annual loan limit

The maximum combined Direct Subsidized Loan and Direct Unsubsidized Loan amount Chuck can borrow for the remaining portion of the program is $1,105, not more than $765 of which may be subsidized.

Example 2: Academic year contains 2 semesters
Remaining period = 2 semesters, with less than half-time enrollment in one of the semesters

Fall	Spring
Fall	Spring

Chuck transfers to a BA program at Reiff College. During his second year, he will be enrolled full time in the fall and less than half time in the spring, and will graduate at the end of the spring term. Although Chuck is eligible to receive a Direct Loan only for the fall term, his remaining period of study (two semesters) is equal to a full academic year. Therefore, proration of the annual loan limit is not required if he receives a Direct Loan for the fall term.

Example 3: Academic year contains 900 clock hours and 26 weeks.
Remaining period = 760 clock hours

Year 1: Student completes 1,040 clock hours in 26 weeks

Year 2: 760 clock hours remaining in program

Bulaga Career College has an 1800 clock-hour program and defines its academic year as 900 clock hours and 26 weeks of instructional time. Sally, a dependent undergraduate student, successfully completes the first 900 clock hours of the program in 22 weeks of instructional time. However, she must complete an additional four weeks of instructional time before she may receive a second loan. After 26 weeks of instructional time have elapsed, Sally has successfully completed 1040 clock hours. She may then receive a second loan, but the loan limit must be prorated based on the number of clock hours remaining in her program at this point (760). To determine the prorated loan limit for Sally's second loan, convert the fraction based on the number of clock hours remaining to a decimal (760/900 = 0.84). Multiply this decimal by the combined Direct Subsidized Loan and Direct Unsubsidized Loan annual loan limit for a dependent second-year undergraduate ($6,500, not more than $4,500 of which may be subsidized):

$6,500 x 0.84 = $5,460 combined subsidized/unsubsidized prorated annual loan limit

To determine the maximum portion of the $5,460 prorated annual loan limit that Sally may receive in subsidized loan funds, multiply the maximum subsidized annual loan limit of $4,500 by the same decimal (0.84):

$4,500 x 0.84 = $3,780 subsidized prorated annual loan limit

The total prorated loan limit for the remaining period of study is $5,460, not more than $3,780 of which may be subsidized.

Proration examples for remaining period of study shorter than an academic year (continued)

Example 4: Academic year contains 3 quarters

Remaining period of study = two quarters, separated by a period of non-enrollment

Fall	Winter	Spring

McNutt Institute has an academic year that covers three quarters: fall, winter, and spring. Bob, an independent fourth-year undergraduate, will be enrolling at least half time in the fall and spring quarters, but will not be enrolled in the winter quarter, and will graduate at the end of the spring quarter. Because the fall quarter is in the same academic year as Bob's final quarter, it is part of the final period of study, even though there is a term between the final quarter and the fall quarter in which he will not enroll. McNutt Institute must award Bob separate loans for fall and spring.

Bob's final period of study (two terms) is shorter than an academic year, so the annual loan limit for each loan must be prorated based on the number of hours for which Bob is enrolled in each term.

In this example, Bob will be enrolled for 12 hours in each of the two quarters (fall and spring). The prorated loan limit is determined separately for each term by converting the fraction based on the number of hours in each term to a decimal (12/36 = 0.33). Multiply this decimal by the combined Direct Subsidized Loan/Direct Unsubsidized Loan annual loan limit for an independent fourth-year undergraduate ($12,500, not more than $5,500 of which may be subsidized):

$12,500 x 0.33 = $4,125 combined subsidized/unsubsidized prorated annual loan limit for a single term (fall or spring)

To determine the maximum portion of the $4,125 prorated annual loan limit that Bob may receive in subsidized loan funds for a single term, multiply the maximum subsidized annual loan limit of $5,500 by the same decimal (0.33):

$5,500 x 0.33 = $1,815 subsidized prorated annual loan limit for a single term (fall or spring)

The combined total prorated loan limit for the two single-term loans (fall-only and spring-only) in the remaining period of study is $4,125, not more than $1,815 of which may be subsidized. This means that the maximum loan amount Bob may receive for the two terms in the final period of study combined is $8,250, not more than $3,630 of which may be subsidized.

Example 5: Remaining period of study shorter than an academic year, with less than half-time enrollment in one of the terms.

Fall	Winter	Spring (not enrolled)

Turner College has an academic year that covers three quarters: fall, winter, and spring. Linda, a dependent fourth-year undergraduate, will be enrolling in the fall and winter quarters, but not the spring quarter, and will graduate at the end of the winter term. Linda will be enrolled for 12 quarter hours (full time) during the fall quarter, but will be enrolled for only three hours (less than half time) in the winter quarter. Turner defines its academic year as 36 quarter hours and 30 weeks of instructional time.

Linda's final period of study (two terms) is shorter than an academic year, so the annual loan limit must be prorated. However, because Linda will be enrolled less than half time during the winter quarter (and therefore ineligible to receive Direct Loan funds for that term), the loan period will cover the fall quarter only, and only the 12 quarter hours for the fall term are used to determine the prorated annual loan limit.

To determine the prorated loan limit for Linda's final period of study, convert the fraction based on the hours that Linda is expected to attend in the fall quarter and the hours in the academic year to a decimal (12/36 = 0.33). Multiply this decimal by the combined Direct Subsidized Loan and Direct Unsubsidized Loan annual loan limit for a dependent fourth-year undergraduate ($7,500, not more than $5,500 of which may be subsidized):

$7,500 x 0.33 = $2,475 combined subsidized/unsubsidized prorated annual loan limit

To determine the maximum portion of the $2,475 prorated annual loan limit that Linda may receive in subsidized loan funds, multiply the maximum subsidized annual loan limit of $5,500 by the same decimal (0.33):

$5,500 x 0.33 = $1,815 subsidized prorated annual loan limit

The total prorated annual loan limit for the fall quarter loan is $2,475, not more than $1,815 of which may be subsidized.

Proration of the annual loan limit for students who graduate early from a clock-hour program

Under the regulations that govern the treatment of Title IV funds when a student withdraws, a student who completes all the requirements for graduation from a program before completing the days or hours that they were scheduled to complete is not considered to have withdrawn, and no return of Title IV funds calculation is required (see Volume 5 for more detail). However, a school may be required to return a portion of the Direct Loan funds that were disbursed to a student who successfully completes the requirements for graduation from a clock-hour program before completing the number of clock hours that they were scheduled to complete.

A student's eligibility to receive Title IV aid for a clock-hour program is based, in part, on the total number of clock hours in the program. If a school allows a student to graduate from a clock-hour program without completing all of the originally established hours for the program, the school has effectively shortened the program length and reduced a student's Title IV aid eligibility for the program. In this circumstance, the school must prorate (or re-prorate) the annual loan limit for the student based on the number of hours the student actually completed, and after this recalculation, the school must return to the Department any portion of the Direct Loan funds the student received that exceed the newly prorated (or re-prorated) annual loan limit. (For a student who received a Pell Grant, the school must also recalculate the student's Pell Grant award in this situation. See *Chapter 3* of this volume for more information.)

As an example, consider a dependent student who enrolls in a 900 clock-hour program, with the academic year defined as 900 clock hours and 26 weeks of instructional time. The school assumes that the student will complete 900 clock hours. Based on EFC and COA, the student qualifies to receive the maximum annual combined Direct Subsidized Loan/Direct Unsubsidized Loan limit of $3,500 in the form of a Direct Subsidized Loan (paid in two disbursements of $1,750 each), and the maximum additional Direct Unsubsidized Loan amount of $2,000 (paid in two disbursements of $1,000 each).

The school considers the student to have met the requirements for graduation from the program after the student has completed only 750 of the originally scheduled 900 clock hours. As soon as practicable after determining that the student will meet the graduation requirements after completing only 750 clock hours, the school must prorate the student's Direct Loan annual loan limit, because the student is now treated as having been enrolled in a program shorter than an academic year in length (i.e. as though the student had originally enrolled in a 750 clock-hour program). However, in this circumstance only the number of clock hours that the student completed are used to determine the prorated loan limit. There is no comparison of hours and weeks fractions, as is normally required when prorating the Direct Loan annual loan limit for students who are enrolled in programs shorter than an academic year.

The school determines the prorated annual loan limit by multiplying the applicable annual loan limit by the number of clock hours the student actually completed, then dividing the result by the number of clock hours in the program's academic year definition:

($3,500 x 750) ÷ 900 = $2,917 prorated combined subsidized/unsubsidized annual loan limit

($2,000 x 750) ÷ 900 = $1,667 prorated additional unsubsidized annual loan limit

(As noted earlier in the discussion of loan limit proration, the prorated loan limit may also be determined by converting the fraction consisting of the number of clock hours the student completed in the program over the number of clock hours in the program's academic year to a decimal, and then multiplying the decimal by the applicable annual loan limit. Whatever approach a school chooses should be applied consistently, as the method shown above and the decimal method may produce slightly different results.)

The school reduces the original first disbursement of the student's Direct Subsidized Loan by $292 and reduces the original second disbursement by $291, then returns the total difference of $583 in Direct Subsidized Loan funds to the Department.

The school reduces the original first disbursement of the student's Direct Unsubsidized Loan by $166 and reduces the original second disbursement by $167, then returns the total difference of $333 in Direct Unsubsidized Loan funds to the Department.

Note that the school – not the student – is responsible for returning the excess Direct Loan funds in this situation.

The requirement described above applies ***only*** to clock-hour programs, and it applies regardless of the length of the program or remaining portion of a program. In some cases, this means that previously prorated annual loan limit must be re-prorated. For example, if a student is enrolled in the remaining 500 clock hours of a 1500 clock-hour program, the annual loan limit would have to be prorated because the student is enrolled in a final period of study shorter than an academic year. If the student successfully meets the requirements for graduation from the program after completing only 400 clock hours, the school would be required to re-prorate the annual loan limit based on the 400 hours that the student actually completed, and if the student originally received Direct Loan amounts in excess of the re-prorated loan limit, the difference must be returned to the Department.

ANNUAL LOAN LIMITS FOR STUDENTS WHO TRANSFER OR CHANGE PROGRAMS WITHIN THE SAME ACADEMIC YEAR

The annual loan limits are based on an academic year. If a student who received a Direct Loan transfers from one school to another school or changes to a different program at the same school and there is an overlap between the academic year associated with the loan received for the first school or program and the academic year for the new school or program, this overlap may affect the amount that the student is initially eligible to borrow at the new school or for the new program.

An overlap in academic years exists if the academic year at the new school (or the academic year for the new program at the same school) begins before the calendar end date of the academic year at the prior school or program. In the case of a transfer student from another school, you may obtain documentation from the prior school of the specific beginning and ending dates for the prior academic year or look for the academic year dates of Direct Loans originated by the prior school on the "award detail information page" in the Common Origination and Disbursement (COD) Web interface.

Transfer into standard term or SE9W nonstandard term program (SAY, BBAY 1, or BBAY 2)

If a student enrolls in a program with standard terms or SE9W nonstandard terms after already having taken out a loan at another school with an overlapping academic year, the student initially may not receive more than the annual loan limit at the new school minus the amount received at the prior school.

However, the student may borrow again for a subsequent term within the same academic year at the new school if the term begins after the end of the academic year at the prior school. For a subsequent term that begins after the end of the prior school's academic year, but within the initial academic year at the new school, the student may borrow up to the difference between the applicable annual loan limit and the amount already received for the new school's academic year, if the student's COA supports that amount.

Likewise, if a student transfers to a different program at the same school at the beginning of a new term within the same academic year, the student's loan eligibility for the remaining term(s) of the academic year is equal to the difference between the applicable loan limit for the new program and the loan amount the student received for the prior program within the same academic year.

Transfer into clock-hour, non-term, or non-SE9W nonstandard term program (BBAY 3)

Transfers between schools:

If a student enrolls in a clock-hour, non-term, or non-SE9W nonstandard term program after already having taken out a loan at

Exceptions to minimum loan period rules (abbreviated loan periods)
34 CFR 685.301(a)(10)(ii), (iii)

another school for an academic year that overlaps the academic year at the second school, the student is restricted to the remaining balance of the student's annual loan limit (that is, the difference between the applicable annual loan limit at the new school and the loan amount received for the overlapping academic year period at the prior school) until the ending date of the academic year reported by the prior school. Although the minimum loan period in a clock-hour, non-term, or non-SE9W nonstandard term program is normally the lesser of the academic year or the length of the program (or remaining portion of the program), in this circumstance the new school may originate an initial loan for an "abbreviated loan period" equal to the remaining portion of the academic year that began at the prior school. For more detailed information, see the discussion under "Loan periods when a student transfers to a new school or new program with an overlapping academic year" later in this chapter.

Transfers between programs at the same school

If certain requirements are met, when a student who has received a Direct Loan for one program transfers to a different program at the same school, you have the option of considering the student to remain in the same payment period and loan period. Otherwise, you must place the student in a new payment period and originate a new loan with a new loan period.

Same payment period and same loan period

At your option, you can consider a student who transfers from one program to another program at the same school to be in the same payment period and loan period if:

- The student is continuously enrolled at the school;
- The coursework in the payment period the student is transferring out of is substantially similar to the coursework the student will be taking when they first transfer to the new program;
- The student's current payment period and the payment periods that would otherwise apply in the new program are substantially equal in length in weeks of instructional time and credit or clock hours, as applicable;
- There are few or no changes in school charges associated with the transfer to the new program; and
- The credits or clock hours from the payment period the student is transferring out of are accepted toward the new program.

If you choose to keep the student in the same payment period, the loan period for the loan the student received for the first program would also remain the same. However, you must take into account any changes as to when the student is expected to complete the hours and weeks of instructional time of the academic year and make any necessary adjustments to the ending date of the loan period or the dates of the second and any subsequent disbursements.

New payment period and new loan period

If the requirements described above are not met, or if they are met but you choose to place a student who transfers from one program to a different program in a new payment period, you must perform a Return of Title IV calculation for the student's withdrawal from the payment period in the first program (assuming that the student did not complete that payment period without starting a new one before transferring into the new program if the return of Title IV funds is done on a payment period basis, or assuming the student did not complete the loan period if the R2T4 is done on a period of enrollment basis). That calculation would close out the original loan period. Then the student would start over with a new loan period for his new program that uses the remaining annual loan limit eligibility from the academic year associated with the first program (see below for more detailed information).

If a student transfers from one program at your school to a different program at your school within the same academic year and is not considered to remain in the same payment period and loan period (regardless of whether the student completed the first program or is changing to a different program without having completed the first program), you may originate an initial loan for the new program with an abbreviated loan period that ends on the calendar period ending date of the academic year associated with the prior program.

The abbreviated loan period described above is an exception to the normal rule that for a clock-hour, non-term credit hour, or non-SE9W program, the minimum period for which a school may originate a loan is the lesser of the academic year or the length of the program (or remaining portion of the program). For the abbreviated loan period, the student may receive up to the difference between the applicable annual loan limit for the new program and the loan amount that the student received for the prior program during the same academic year. For more detailed information, see the discussion under "Loan periods when a student transfers to a new school or new program with an overlapping academic year" later in this chapter.

Loan periods when a student transfers to a new school or new program with an overlapping academic year

Transfer to a new school

If a student transfers into a clock-hour, non-term, or non-SE9W nonstandard term program at a new school and the academic year associated with the last loan the student received at the prior school overlaps the initial academic year for the program at the new school, the new school may originate an initial loan for a loan period that covers the remaining portion of the academic year that began at the prior school. The loan period for this initial loan is often called an "abbreviated loan period," because it is shorter than the loan period that would otherwise be required under the normal minimum loan period requirements.

The new school may originate a loan for an abbreviated loan period regardless of whether or not the new school accepts transfer hours from the prior school. The abbreviated loan period begins with the date of the student's enrollment at the new school, and ends on the calendar period ending date of the academic year that began at the prior school, without regard to the number of credit/clock-hours or weeks of instructional time that the student has completed during the abbreviated loan period. After the abbreviated loan period is completed, the student progresses to a new loan period and academic year (BBAY 3), and a new annual loan limit.

If the new school accepts credits/hours from the prior school, this may give the student advance standing that reduces the length of time it will take to complete the program at the new school. If the remaining portion of the program at the new school following the completion of the abbreviated loan period is shorter than an academic year, the annual loan limit for the next loan must be prorated.

Generally, the loan amount for the abbreviated loan period at the new school may not exceed the remaining balance of the full annual loan limit applicable to the student at the new school, minus the loan amount the student received at the first school for the same academic year. However, if the program at the new school is less than a full academic year in length, or is a remaining portion of a program that is less than an academic year in length, the total loan amount that the student may receive for the program at the new school (for the abbreviated loan period and any subsequent loan period combined) may not exceed the applicable prorated annual loan limit for the program or remaining portion of the program.

Rules for abbreviated loan periods:

1. The abbreviated loan period begins when the student starts at the new school.
2. The abbreviated loan period ends when the academic year would have ended at the prior school, without regard to how many hours or weeks of instructional time the student has completed at the new school during the abbreviated loan period.
3. Generally, the maximum loan amount that the student can receive for the abbreviated loan period is the difference between the full annual loan limit applicable to the student at the new school and the loan amount that was disbursed at the prior school during the overlapping academic year (see the preceding discussion for an exception to this general rule when the program at the new school is less than a full academic year in length, or is a remaining portion of a program that is less than an academic year in length).
4. The first disbursement of the loan for the abbreviated loan period at the new school is made at the beginning of the abbreviated loan period. Unless the school qualifies based on its cohort default rate for the exemption from the multiple disbursement requirement, the loan must be disbursed in at least two installments, with the second disbursement made at the calendar midpoint of the abbreviated loan period regardless of how many clock/credit hours or weeks of instructional time have been completed. The normal payment period disbursement rules do not apply in this situation.
5. The next loan period and a new BBAY 3 at the new school begins the day after the last day of the abbreviated loan period.
6. Once the new loan period and BBAY 3 begin, all of the normal rules for the timing of disbursements and annual loan limit progression apply.

Loan periods when student transfers to a new school or new program with an overlapping academic year (continued)

Transfer to a new program at the same school

When a student transfers within the same academic year from one program to a different program at the same school, and the new program is a clock-hour, non-term, or non-SE9W nonstandard term program, the school may originate an initial loan for the new program with an abbreviated loan period that ends on the calendar period ending date of the academic year associated with the prior program. The same abbreviated loan period rules that apply when a student transfers from one school to another school (see above) also apply when a student transfers within the same academic year to a new program at the same school.

Transfer student with overlapping academic years

James transfers on September 15 into Hammett Technical College, entering a 3-year program that has an academic year of 26 weeks and 900 clock hours.

James received a Direct Loan at the school he was previously attending. The financial aid administrator at Hammett determines that the academic year for the most recent loan James received at his previous school began July 15 and was scheduled to end January 15. The aid administrator at Hammett may originate a loan for the period during which James would have completed the academic year at the prior school, which was scheduled to end on January 15th. The dates for the abbreviated loan period will be September 15 to January 15. During this period, James will be eligible to receive up to the difference between his annual loan limit at Hammet and the loan amount he received at the prior school for the overlapping academic year period.

Unless Hammett qualifies for the exemption from the multiple disbursement requirement based on its cohort default rate, the loan must be disbursed in at least two installments, with the second disbursement made at the calendar midpoint of the abbreviated loan period, regardless of how many clock-hours or weeks of instructional time James has completed.

On January 16th, the day after the last day of the abbreviated loan period, James will start a new BBAY and regain eligibility for a new annual loan limit. The loan period for the first loan after the end of the abbreviated loan period will be for a full academic year (the period of time in which James will be expected to complete 900 clock hours and 26 weeks of instructional time).

Remaining loan eligibility on transfer/program change

Transfer into a standard term or SE9W nonstandard term program

A student receives a $2,000 Direct Subsidized Loan at School A for a loan period from May 1 to August 31. School A reports the academic year for this loan as May 1 to November 27. The student, a dependent undergraduate, transfers to a program at School B in September and is admitted at grade level 2. The student requests a loan for the fall and spring semesters (September-May). The program at School B uses an SAY consisting of fall and spring semesters, followed by a summer trailer term.

Because the academic year at School B begins before the end of the academic year at School A, the student may initially receive only up to a maximum of $4,500 for the fall semester at School B, not more than $2,500 of which may be subsidized. This amount represents the difference between the annual loan limit of $6,500 (maximum $4,500 subsidized), and the amount received at School A ($2,000 subsidized) for the overlapping academic year period.

The initial loan period at School B corresponds with the fall term. Assuming that the student receives the maximum of $4,500 for the fall semester, at the start of the spring semester in January the student may borrow up to an additional $2,000 (the difference between the second-year dependent undergraduate annual loan limit and the amount already borrowed for the fall-spring academic year at School B). If the student received the maximum $2,500 in subsidized loan funds for the fall term, the additional $2,000 would be limited to unsubsidized.

As an alternative, School B could choose to change the student from an SAY schedule to a BBAY 1 schedule beginning with the Spring semester. The student would then be eligible to borrow up to the full annual loan limit for a spring--summer BBAY. Although this might appear to result in an overlap between the SAY and BBAY at School B, in this limited transfer student circumstance the Fall semester at School B can be considered the last term of the academic year that began at School A.

Transfer into a clock-hour, non-term, or non-SE9W nonstandard term program

Example 1: A dependent first-year undergraduate student receives the first disbursement ($2,750) of a Direct Unsubsidized Loan at School A. The loan period and academic year dates are April 1 to December 31. For purposes of this example, assume that the student has no financial need for a Direct Subsidized Loan and receives only Direct Unsubsidized Loans. The student leaves School A on June 18 and transfers to an 1,800 clock-hour program at School B, and begins attendance at School B on June 25. The student is still classified as a dependent first-year undergraduate.

The student's first loan period at School B will be an abbreviated loan period from June 25 through December 31 (the beginning date of attendance at School B through the date the academic year would have ended at School A). For the initial abbreviated loan period, School B may originate a loan for up to the difference between the student's annual loan limit and the loan already received at School A for the overlapping loan period. This is $2,750.

On January 1, the day after the last day of the abbreviated loan period, a new BBAY begins and the student becomes eligible for a new annual loan limit. The loan period for the new loan the student receives following the completion of the abbreviated loan period will correspond to the lesser of the academic year or the remainder of the program at School B. If there is less than a full academic year of the program remaining after the abbreviated loan period has ended, the loan limit for the new loan must be prorated.

Example 2: A dependent first-year undergraduate student receives the first disbursements of a Direct Subsidized Loan ($1,750) and Direct Unsubsidized Loan ($1,000) at School A. The loan period and academic year dates are January 26 to July 31.

The student leaves School A and transfers into a 300 clock-hour/12-week program at School B on June 15. School B defines its Title IV academic year as containing 900 clock hours and 26 weeks of instructional time. The combined subsidized/unsubsidized prorated annual loan limit for the 300-hour program at School B is $1,815, not more than $1,155 of which may be subsidized.

For the abbreviated loan period at School B (June 15 to July 31), a transfer student would normally be eligible to receive the difference between the full first-year annual loan limit and the loan amount received at School A (that is, an additional $1,750 subsidized and $1,000 unsubsidized). In this example, however, the student may not receive those amounts, because they would exceed the prorated annual loan limits for the 300 clock-hour program. Therefore, the maximum loan amount the student may receive for the abbreviated loan period at School B is $1,815, not more than $1,155 of which may be subsidized (the prorated loan limits for the program). Because the student has received the maximum prorated loan limit for the program, there is no remaining loan eligibility for the program following the completion of the abbreviated loan period.

Example 3: A school offers some programs in a standard term academic calendar and other programs in a non-term calendar. A first-year dependent undergraduate student enrolls in a standard term program with an SAY consisting of fall, winter, and spring quarters and receives the first and second disbursements of a Direct Subsidized Loan (total of $2,234) and a Direct Unsubsidized Loan (total of $1,334). The loan period and academic year dates are September 1 to May 31.

The student decides not to finish the program and after completing the winter quarter transfers to a 2-year non-term credit hour program offered at the same school. The academic year for the new program is defined as 24 semester hours and 30 weeks of instructional time. The student begins the new program on March 1. For the new program, the school may originate an initial loan for an abbreviated loan period that begins on March 1 and ends on May 31, the ending date of the academic year associated with the loans the student received for the first program. For the abbreviated loan period, the student can receive up to $1,932, not more than $1,266 of which may be subsidized. This represents the difference between the first-year dependent undergraduate annual loan limit ($5,500, maximum $3,500 subsidized) and the loan amounts received for the first program during the overlapping academic year.

On June 1, the first BBAY for the new program will begin. Because this is a non-term credit-hour program, the school must use BBAY 3, and the loan period will be for the first full academic year of the new program (the period during which the student will be expected to complete 24 semester hours and 30 weeks of instructional time).

AGGREGATE LOAN LIMITS

Aggregate loan limits
34 CFR 685.203(d), (e)

General

A borrower who has reached the aggregate borrowing limit for Direct Subsidized Loans and Direct Unsubsidized Loans may not receive additional loans. Once the loans are repaid, in full or in part, the borrower may apply for additional loans.

To ensure that a student doesn't exceed the aggregate loan limits, the student's FAFSA data is matched with NSLDS) and if the student has exceeded or is approaching the aggregate loan limits, this will be noted in the ISIR. If a student transfers to your school, you must inform NSLDS so that it can begin the Transfer Student Monitoring process.

The maximum outstanding total subsidized and unsubsidized loan debt, excluding capitalized interest, is:

- $31,000 for a dependent undergraduate student (no more than $23,000 of this amount may be in the form of subsidized loans).
- $57,500 for an independent undergraduate student (or a dependent undergraduate student whose parents do not qualify for Direct PLUS Loans). No more than $23,000 of this aggregate amount may be in the form of subsidized loans.
- $138,500 for a graduate or professional student (including loans for undergraduate study). No more than $65,500 of this aggregate amount may be in the form of subsidized loans (for a graduate or professional student, the subsidized aggregate includes subsidized loans received for undergraduate study and subsidized loans received as a graduate or professional student for periods of enrollment beginning before July 1, 2012, when graduate and professional students were eligible to receive subsidized loans).

The loan amounts counted towards these maximums include any outstanding Direct Subsidized Loan and Direct Unsubsidized Loan amounts, and also any outstanding Subsidized and Unsubsidized Federal Stafford Loans previously borrowed under the Federal Family Education Loan (FFEL) Program. In the case of a Direct Consolidation Loan or a Federal Consolidation Loan made under the FFEL Program, the outstanding amount of the consolidation loan representing any Direct Subsidized Loans, Direct Unsubsidized Loans, Subsidized Federal Stafford Loans, or Unsubsidized Federal Stafford Loans that were paid off by the consolidation loan is counted toward the aggregate subsidized and unsubsidized loan limits. (NOTE: No new loans have been made under the FFEL Program since June 30, 2010.)

Aggregate Limits for Sub/Unsub Loans

	Total (sub and unsub)	*Maximum sub*
Dependent undergraduates (excluding those whose parents can't borrow PLUS)	$ 31,000	$23,000
Independent undergrads and dependent students whose parents can't borrow PLUS	$ 57,500	$ 23,000
Graduate and professional students	$ 138,500*	$ 65,000**

* The aggregate loan limit for graduate and professional students includes loans received for undergraduate study.

** The $65,500 subsidized aggregate loan limit for graduate and professional students includes subsidized loans received for prior undergraduate study. For students who were enrolled in graduate or professional programs before July 1, 2012, it also includes any subsidized loans they received for prior graduate or professional study (subsidized loan eligibility for graduate and professional students was eliminated effective for loan periods beginning on or after July 1, 2012).

Aggregate loan limit for undergraduate student with graduate degree

In some cases, a student who previously received undergraduate and graduate degrees returns to school to complete a second undergraduate program. Only the loans that the student received for the first undergraduate program are included in determining the student's remaining eligibility for loans for the second undergraduate program, up to the undergraduate aggregate limits. Although loans received for graduate study are not counted toward a student's undergraduate aggregate loan limit, the combined loan amounts received for undergraduate and graduate programs may not exceed the total allowable aggregate loan limits.

Example: Returning to undergraduate program after receiving loans for graduate study

An independent student has received the following loan amounts for a first undergraduate program and a graduate program:

	Subsidized:	*Unsubsidized:*	*Total*
Undergraduate	$19,000	$26,000	$45,000
Graduate	$0	$86,000	$86,000
Total	$19,000	$112,000	$131,000

The student has now enrolled in a second undergraduate program. Only the loans received for the first undergraduate program are counted toward the student's undergraduate aggregate loan limit. Because the total amount received for the first undergraduate program ($45,000) does not exceed the aggregate loan limit for an independent undergraduate ($57,500, maximum $23,000 subsidized), the student has remaining loan eligibility for the second undergraduate program.

The difference between the independent undergraduate aggregate loan limit and the total amount of the loans received for the first undergraduate program is $12,000. However, the student may not receive the full $12,000, because that amount, when combined with the amount received for the first undergraduate program and the amount received for the graduate program, would exceed the combined undergraduate/graduate aggregate loan limit of $138,500 ($45,000 + $86,000 + $12,500 = $143,500). Therefore, the student's remaining loan eligibility for the second undergraduate program is $7,500 ($138,500 minus $131,000 already received for the first undergraduate program and the graduate program). Not more than $4,000 of this amount may be subsidized ($23,000 undergraduate subsidized aggregate loan limit minus $19,000 in subsidized loans received for the first undergraduate program).

Treatment of Direct Subsidized Loans/Direct Unsubsidized Loans received for teacher certification coursework or preparatory coursework

Students receiving Direct Loans for teacher certification coursework or for preparatory coursework (including preparatory coursework required for admission to a graduate or professional program) are considered to be undergraduates for all Title IV purposes. Therefore, Direct Subsidized Loans and Direct Unsubsidized Loans that a student receives for teacher certification coursework or preparatory coursework are counted against the student's undergraduate aggregate loan limits. (For guidance on Direct Loan eligibility for teacher certification and preparatory coursework, see the "Annual Loan Limits" section earlier in this chapter.)

Higher aggregate loan limit for certain health professions students

As explained earlier in this chapter, graduate and professional students who are enrolled in certain health professions programs are eligible for higher annual Direct Unsubsidized Loan limits. These students also have a higher combined subsidized/unsubsidized aggregate loan limit.

The combined subsidized/unsubsidized aggregate loan limit for graduate and professional health professions students who are eligible to receive the increased annual unsubsidized amounts is $224,000. Not more than $65,500 of this amount may be from subsidized loans. The subsidized component of the aggregate limit includes subsidized loans that students may have received for graduate/professional study prior to July 1, 2012 (when graduate and professional students were still eligible to receive subsidized loans) and/or for undergraduate study.

If a student who received increased Direct Unsubsidized Loan amounts for a qualifying health profession program later enrolls in a non-health professions program, the student is no longer eligible for the increased Direct Unsubsidized Loan limits. However, the additional loan amounts received for the health professions program are not counted toward the normal aggregate loan limit for that student.

Checking loan amounts in NSLDS

Before originating a Direct Subsidized Loan or Direct Unsubsidized Loan, it's important to make sure the student still has remaining eligibility under the aggregate loan limits. As long as there is no conflicting information, you may rely on the financial aid history (provided on the ISIR as well as in NSLDS) and the Transfer Student Monitoring process to tell you if a student is about to exceed the aggregate loan limits. (The NSLDS financial aid history may affect eligibility for other FSA programs, so it is discussed in more detail in *Volume 1*, *Chapter 3*.)

The Loan History shown in NSLDS for a borrower who has received Title IV loans shows Aggregate Loan Information for the borrower's outstanding subsidized and unsubsidized loans. The Aggregate Loan Information subsidized and unsubsidized Outstanding Principal

Balance amounts shown in a borrower's NSLDS loan history do not include unpaid accrued interest, capitalized interest (unpaid interest that has been added to the principal balance of the loan), or other charges, as these amounts are not counted against the aggregate loan limits. For each individual loan that a borrower has received, NSLDS shows both the outstanding principal balance (OPB) and the aggregate outstanding principal balance (Agg. OPB). The OPB is what the borrower owes, which may include capitalized interest and other charges. The Agg. OPB is the portion of the OPB that counts against the aggregate loan limits for subsidized and unsubsidized loans.

For instance, suppose a student has a Direct Unsubsidized Loan disbursed in the amount of $5,000. Over time, $200 in interest accrues and is capitalized. Assuming that the borrower has made no payments on the loan, the OPB on the loan will be $5,200 (this is the amount the borrower owes), and the Agg. OPB will be $5,000 (this is the amount that is counted against the aggregate loan limit). If you are looking at the individual loans as displayed in the student's NSLDS Loan Detail, it is the Agg. OPB that you should use to determine remaining loan eligibility under the aggregate loan limits.

The Aggregate Loan Information subsidized and unsubsidized Outstanding Principal Balance amounts shown in a borrower's NSLDS loan history also include the outstanding portion of consolidation loans (both Direct Consolidation Loans and Federal Consolidation Loans made under the FFEL program) attributable to Direct Subsidized Loans, Direct Unsubsidized Loans, Subsidized Federal Stafford Loans, and Unsubsidized Federal Stafford Loans that were repaid by the consolidation loan.

Unallocated consolidation loan amounts

NSLDS may also show a "Consolidation Loans, Unallocated" amount that is not counted against a borrower's aggregate loan limits. The "Consolidation Loans, Unallocated" amount represents the portion of a consolidation loan that cannot be attributed to other loans in the borrower's loan history (for example, it may represent capitalized interest or non-Title IV loans that were consolidated). You are not responsible for determining the origin of any unallocated consolidation loan amounts.

Treatment of consolidated Perkins Loans and PLUS loans

A consolidated Perkins Loan or PLUS loan becomes part of the unsubsidized portion of a consolidation loan, but it is not counted toward the borrower's aggregate Direct Loan limits.

Effect of change in student status on aggregate loan limits

In some cases, a student may qualify for higher loan limits, but then lose eligibility for the higher limits due to a change in status. One such situation is when a dependent undergraduate qualifies for increased Direct Unsubsidized Loan amounts because the student's parent is unable to obtain a Direct PLUS Loan, but in a subsequent academic year the student's parent is able to qualify for a Direct PLUS Loan. The dependent student then loses eligibility to receive Direct Unsubsidized

Loans at the higher independent undergraduate annual and aggregate loan limits, and is once again subject to the dependent undergraduate annual and aggregate loan limits. However, the increased unsubsidized loan amounts that the student previously received as a result of the parent's inability to obtain a Direct PLUS Loan are not counted against the dependent undergraduate aggregate loan limit (see the example that follows)..

A similar situation occurs when a student who received loans for a graduate or professional degree program later returns to school and enrolls in an undergraduate program. In this case, loan amounts that the student received as a graduate or professional student are not counted against the undergraduate aggregate loan limit. For more detailed information and an example, see the discussion under "Undergraduate student with graduate degree" earlier in this chapter.

Example: Aggregate loan limits and additional Direct Unsubsidized Loan amounts when parents are unable to obtain Direct PLUS Loans

A dependent student is treated as an independent student for loan limit purposes and receives additional Direct Unsubsidized Loan funds (up to the additional amounts available to independent undergraduates) for the first three years at your school because the student's parent was unable to obtain a Direct PLUS Loan for each of those years, but the parent was eligible to borrow a Direct PLUS Loan for the student's fourth year. The student would be eligible for the following Direct Loan amounts:

first year (independent student loan limit) = $9,500 (maximum $3,500 subsidized)
second year (independent student loan limit) = $10,500 (maximum $4,500 subsidized)
third year (independent student loan limit) = $12,500 (maximum $5,500 subsidized)

For each of the first three years, the student receives the maximum subsidized amount and the maximum additional unsubsidized amount. In the fourth year, the parent is eligible to borrow a Direct PLUS Loan, so the student is then subject to the annual and aggregate loan limits for a dependent undergraduate. Although it might appear that the student would have no remaining loan eligibility for year 4 because the total amount received for years 1-3 exceeds the $31,000 dependent undergraduate aggregate loan limit, the additional Direct Unsubsidized Loan amount that the student received as a result of the parent Direct PLUS Loan denials in the first three years of the undergraduate program does not count against the $31,000 dependent aggregate limit.

The student received a total of $19,000 in additional Direct Unsubsidized Loan funds for the first three years ($6,000 each in years 1 and 2, and $7,000 in year 3). Of this total additional unsubsidized amount, the student would have been eligible to receive $6,000 ($2,000 each year) as a dependent undergraduate if the student's parent had qualified for a Direct PLUS Loan. The extra $13,000 in unsubsidized funds that the student received as a result of the parent being unable to obtain a Direct PLUS Loan for the first three years ($4,000 in each of years 1 and 2, and $5,000 in year 3) is not counted against the $31,000 dependent undergraduate aggregate when determining the student's loan eligibility for year 4. Excluding this amount, only $19,500 of the total $32,500 the student received for the first three years counts against the $31,000 dependent undergraduate aggregate loan limit. This means that for year 4, the student is eligible to receive up to the full annual loan limit for a dependent fourth-year undergraduate: $7,500 (maximum $5,500 subsidized).

REPEAL OF SUBSIDIZED LOAN ELIGIBILITY TIME LIMITATION

Before July 1, 2021, first-time borrowers on or after July 1, 2013 (borrowers who had no principal or interest balance on any Direct Loan or FFEL Program loan on the date they received a Direct Loan on or after July 1, 2013) were subject to a limit on the maximum period of time for which they could receive Direct Subsidized Loans. Specifically, these borrowers could not receive Direct Subsidized Loans for a period exceeding 150% of the published length of their academic program. Borrowers who met or exceeded the 150% limit were also subject to a loss of the interest subsidy on their Direct Subsidized Loans (that is, they became responsible for paying interest on Direct Subsidized Loans during in-school periods, deferment periods, and other periods when, under normal rules, no interest would be charged on Direct Subsidized Loans). This previous limitation on subsidized loan eligibility is often informally referred to as the "150% rule" or "SULA" (SULA = Subsidized Usage Limit Applies).

The FAFSA Simplification Act, part of the Consolidated Appropriations Act, 2021, repealed the SULA requirements. For Direct Subsidized Loans first disbursed on or after July 1, 2021, there is no longer a time limitation on any borrower's eligibility to receive Direct Subsidized Loans. In addition, the Department has begun the process of reinstating the interest subsidy on any Direct Subsidized Loans with a balance greater than zero that had previously lost this benefit due to the SULA provisions.

For additional information on how the Department is implementing the repeal of the SULA requirements, refer to the June 11, 2021 Electronic Announcement posted in the Knowledge Center.

Detailed information on the SULA requirements that were in effect before July 1, 2021 can be found in *Volume 3, Chapter 5 of the 2020-21 Federal Student Aid Handbook*.

MANAGING DIRECT LOANS IN MODULES

If a program is offered in modules, this does not change the minimum loan period rules for Direct Loans. For example, if a standard or SE9W nonstandard term is divided into two or more modules, the minimum loan period for a Direct Loan is still the term, even if the student does not attend all of the modules within the term. Similarly, if a clock-hour, non-term credit-hour, or non-SE9W nonstandard term program is offered in modules, the minimum loan period is still the lesser of the academic year or the program length (or remaining portion of the program).

For Title IV aid purposes, students are allowed to skip one or more modules. However, if a loan period includes modules that the student does not attend, the COA for the loan period may not include costs associated with those modules.

Direct Loan disbursements to students who temporarily cease half-time enrollment
34 CFR 685.303(b)(3)(iv)

ENROLLMENT STATUS CHANGES AND DIRECT LOANS

A change in enrollment status to less-than-half-time as a result of a student's failure to begin attendance in all scheduled classes would not affect the student's eligibility for any Direct Loan funds previously disbursed because at the time the previous disbursements were made, the student was still scheduled to attend on at least a half-time basis. However, a student who is no longer enrolled at least half time may not receive as a late disbursement any second or subsequent disbursement of the loan.

If a student does not withdraw, but ceases to be enrolled on at least a half-time basis, the regulations at 34 CFR 668.164(j)(3)(iii) allow a school to make a late disbursement of a Direct Loan for costs incurred by the student for a period in which the student was eligible. However, this does not apply if the student dropped all future classes or modules because the student never really began classes as a half-time student.

Title IV program funds (including Direct Loans) are disbursed to a student on the presumption that the student will attend the hours for which aid has been awarded. Therefore, a school is not required to delay the disbursement of a Direct Loan until a student has begun attendance in enough hours to establish half-time enrollment status. However, if a school has not yet made a Direct Loan disbursement to a student who has dropped classes, and the school determines that the student never began attendance in enough classes to establish half-time enrollment status, the school may not make a first disbursement of a Direct Loan to that student.

Likewise, if a student who was enrolled in a series of modules dropped all future classes before beginning attendance in enough modules to establish half-time enrollment status, the school may not make a first disbursement of a Direct Loan because the school knows the student never began attendance on at least a half-time basis.

If a student who dropped to less-than-half-time status resumes enrollment on a half-time basis during the payment period or period of enrollment, the school may make remaining disbursements of a Direct Loan if the school documents (1) the student's revised COA, and (2) that the student continues to qualify for the entire amount of the loan, despite any reduction in the student's cost of attendance caused by the student's temporary cessation of enrollment on at least a half-time basis.

Regaining Title IV eligibility after inadvertent overborrowing
34 CFR 668.35(d)
Dear Colleague Letter GEN-15-20

RESOLVING INADVERTENT OVERBORROWING AND CORRECTING DIRECT SUBSIDIZED LOAN/DIRECT UNSUBSIDIZED LOAN AWARDING ERRORS

Repayment or reaffirmation after inadvertent overborrowing

A student who has inadvertently received Direct Loan funds in excess of the annual or aggregate loan limits is ineligible to receive *any* FSA funds until the overborrowing is resolved. The student can regain eligibility for aid by repaying the amount that exceeded the annual or aggregate loan limits, or by making satisfactory arrangements with the loan servicer to repay the excess amount. The loan servicer will allow a borrower to "reaffirm" that they will repay the excess according to the terms of the promissory note that they signed.

The school where the student is requesting additional FSA funds is responsible for identifying the loan(s) that resulted in the overborrowing, discussing the overborrowing with the student, and resolving any discrepancies in the information that is obtained. If the loan(s) that caused the student to exceed the annual or aggregate loan limit were received for attendance at a different school, in some cases it may be necessary for the school the student is currently attending to contact the other school for additional information needed to determine that the excess borrowing was inadvertent. Overborrowing is not considered inadvertent if there is any evidence that the overborrowing was the result of deliberate action on the part of the school that determined the borrower's eligibility for the loan, or on the part of the borrower who received the loan. If you determine that the overborrowing was the result of deliberate action on the part of another school or the borrower, you must notify FSA's School Participation Division and provide evidence.

Once you have documented that the student has either repaid the excess loan amount or has made satisfactory arrangements with the loan holder to repay the excess amount, you may award additional aid. However, the student may or may not be eligible to receive additional loan funds, depending on the circumstances. For example, a dependent undergraduate who inadvertently exceeded the $23,000 (subsidized) aggregate limit could not receive any additional Direct Subsidized Loan funds as a dependent undergraduate unless the outstanding debt was paid down below the $23,000 limit.

However, the student could potentially receive additional Direct Unsubsidized Loan funds, up to the $31,000 aggregate loan limit, or non-loan aid. An independent undergraduate who inadvertently exceeded the $23,000 subsidized limit (but who has not reached the $57,500 combined aggregate loan limit for independent undergraduates) could borrow additional Direct Unsubsidized Loan funds once they make satisfactory arrangements to repay the subsidized amount that exceeds $23,000. For more on overborrowing and overawards, see *Volume 4*.

The effective date when a student regains eligibility for the Pell Grant, Campus-Based, TEACH Grant, and Iraq and Afghanistan Service Grant programs begins with the payment period in which the overborrowing was resolved. For Direct Loans, eligibility is retroactive to the beginning of the academic year in which the overborrowing was resolved.

Consolidation of loan amounts that exceed the annual or aggregate loan limit

If a borrower who inadvertently received more than the annual or aggregate loan limits has consolidated the loan(s) that caused the borrower to exceed the loan limit, the consolidation loan is considered to be a satisfactory arrangement to repay the excess amount that restores the borrower's eligibility for FSA aid. (Note, however, that consolidation of an amount that exceeded the aggregate Direct Subsidized/ Unsubsidized Loan limits does not automatically make a student eligible for additional Direct Loan funds.)

Correcting Direct Subsidized Loan or Direct Unsubsidized Loan awarding errors

If you discover that, due to an error, a student borrower has received Direct Subsidized Loan funds in excess of their financial need, and the student is still enrolled for the loan period, you must return the subsidized loan amount for which the borrower was ineligible and ask the borrower if they wish to replace it with a Direct Unsubsidized Loan. If the student agrees to accept the unsubsidized loan funds and the borrower also received a Direct Unsubsidized Loan for the same loan period as the Direct Subsidized Loan, you may increase the amount of the Direct Unsubsidized Loan disbursements by the amount of the Direct Subsidized Loan that the borrower was ineligible to receive. If the student did not receive a Direct Unsubsidized Loan, you may originate a new Direct Unsubsidized Loan for the amount of the Direct Subsidized Loan that the student was ineligible to receive. The new Direct Unsubsidized Loan should have the same loan period and disbursement dates as the Direct Subsidized Loan.

If the borrower does not agree to have the excess subsidized loan funds replaced by a Direct Unsubsidized Loan, you must still return the ineligible Direct Subsidized Loan amount.

If you discover that a student received Direct Subsidized Loan funds in excess of financial need after the student is no longer enrolled for the loan period, you are not required to take any action to eliminate the excess subsidized loan amount.

If you discover that, due to an error, a student borrower who was eligible for a Direct Subsidized Loan instead received a Direct Unsubsidized Loan, you must correct the error (even if the loan period has ended) by submitting a downward adjustment to reduce or eliminate the Direct Unsubsidized Loan, as appropriate, and replacing it with the same amount of Direct Subsidized Loan funds. You may do this either by adjusting an existing Direct Subsidized Loan upwards, or, if the borrower does not have an existing Direct Subsidized Loan, by originating a new Direct Subsidized Loan. Replacing a Direct Unsubsidized Loan with a Direct Subsidized Loan in this circumstance does not require obtaining the borrower's consent.