**Chapter 3**

# NSLDS Financial Aid History

*Students who have previously attended other colleges may have a financial aid history that affects their eligibility for FSA funds at your school. You can review a student's financial aid history by using the National Student Loan Data System (NSLDS) For Financial Aid Professionals online at https://nsldsfap.ed.gov; for questions call 1-800-999-8219. NSLDS will also help you track changes to the student's financial aid history through the post screening and transfer student monitoring processes.*

A student or parent generally isn't eligible for Title IV funds if they are in default on an FSA loan or if they owe an overpayment on an FSA grant and have not made a repayment arrangement for the default or overpayment. Also, for a parent to receive a PLUS Loan, neither the parent nor the student may be in default on an FSA loan or owe an overpayment on an FSA grant (though a parent in default on an FSA loan does not make a student ineligible for Title IV aid). Exceptions to these general rules are noted in the discussion below.

Although there is a limited provision described in chapter 1 for regaining eligibility for Title IV aid on defaulted loans during the Fresh Start period, someone applying for Title IV funds must normally certify that they aren't in default on any FSA loan and don't owe an overpayment on any FSA grant, or that they have made satisfactory arrangements to repay the overpayment or default. This certification statement is printed on the Free Application for Federal Student Aid (FAFSA). Parent PLUS borrowers make this certification on the Direct PLUS Loan Master Promissory Note (MPN). When reporting loans eligible for treatment under the Fresh Start Initiative, you should not change existing loan statuses, effective dates, or interest rates in NSLDS.

A student is also ineligible if they inadvertently exceed annual or aggregate loan limits. When this occurs, you must identify the loan(s) that resulted in the overborrowing and discuss the overborrowing with the student. The student can regain eligibility by repaying the extra amount borrowed or making arrangements, satisfactory to the loan holder, to repay it. See Dear Colleague Letter GEN-13-02 and *Volume 8* for more details.

A student is ineligible if their property is subject to a judgment lien for a debt owed to the United States, and a parent can't receive a PLUS loan if either the student or parent is subject to such a lien. For example, if the Internal Revenue Service (IRS) has placed a lien on a student's property for failure to pay a federal tax debt or make satisfactory arrangements for repayment , the student would be ineligible for federal student aid.

A student who has been convicted of, or has pled no contest or guilty to, a crime involving fraud in obtaining Title IV funds must have completely repaid the fraudulently obtained funds to the Department or the loan holder before regaining aid eligibility. You don't need to proactively collect certification from each student but you must restrict eligibility, as appropriate, if/when you become aware of fraud which has not been completely repaid.

When the FAFSA is processed, the Central Processing System (CPS) matches the student against the National Student Loan Data System (NSLDS) to see if they are in default, owe an overpayment, or have exceeded the loan limits. The CPS doesn't perform any matches to determine whether or not the student is subject to a judgment lien for a federal debt, and you aren't required to check for such liens. The CPS also doesn't check for fund fraud, however, if you know that the person in question is subject to such a lien or has committed fund fraud, you can't pay them Title IV funds.

NSLDS does not match Parent PLUS applicants against data in NSLDS. For more information about Parent PLUS applicants and default, see *Volume 8*.

## Judgment lien example

When Jake provides his parents' tax return to the aid administrator at Hendricks College, the administrator notices that the parents reported business income but didn't report a business asset on the FAFSA. Jake explains that they didn't report the business as an asset because there's a lien against the business for a federal loan. The aid administrator tells him that the asset must still be reported, and also that his parents won't be able to borrow a PLUS Loan as long as they are subject to the lien.

## FSA loans in NSLDS

The following current types of loans are listed in NSLDS:

- Direct Subsidized Loans and Direct Unsubsidized Loans
- Direct PLUS Loans (for parents or for graduate/professional students)
- Direct Consolidation Loans

The following loan types from earlier programs also appear in NSLDS:

- Federal Stafford Loans (subsidized and unsubsidized)
- Federal PLUS Loans
- Federal Perkins Loans
- Federal Consolidation Loans
- Federally Insured Student Loans (FISL)
- Guaranteed Student Loans
- Supplemental Loans for Students (SLS)
- National Direct Student Loans and National Defense Student Loans (predecessors of Perkins Loans)
- Income Contingent Loans (ICL)

### Financial aid history

34 CFR 668.19, Dear Colleague Letter GEN-96-13

### Loan limits and eligibility

See *Volume 8* for loan limits

HEA Sec. 484(f), 34 CFR 668.32(g)(2), 668.35(d),

DCL GEN-13-02

DCL GEN-21-03

### Federal default and debt

HEA Sec. 484(a)(3), 484(f), 34 CFR 668.32(g), 34 CFR 668.35

DCL GEN-22-13

## Resolving grant overpayments

Because FSA grants have priority in packaging, aid overpayments can often be resolved by adjusting other types of aid in the package. If necessary, you can also adjust later grant payments for the same award year. But if a student receives more grant money than they are eligible for and the excess can’t be offset, the student must return the overpayment. As

noted at the beginning of the chapter, a student with an outstanding FSA grant overpayment is ineligible for aid until they repay it or make satisfactory repayment arrangements. See *Volume 4, Chapter 3* for a complete discussion of resolving overpayments and overawards.

## NSLDS Match

To help you identify students with problems such as defaulted loans or overpayments, the CPS matches the student against the NSLDS database to obtain their financial aid history. **You must resolve any conflicts between NSLDS and other information you have about the student before disbursing Title IV funds** (for example, if NSLDS shows that a student isn't in default but you have documentation showing that they are in default). The results of the NSLDS match are provided on the Student Aid Report (SAR) and Institutional Student Information Record (ISIR) (also referred to as "output documents") on the NSLDS Financial Aid History page. As with other matches, a "C" next to the student's expected family contribution (EFC) indicates problems that must be resolved.

Once an overpayment is reported to NSLDS, the student's future SAR/ISIR output documents will show that they have an overpayment. The financial aid history section of the SAR/ISIR will have information on the overpayment, including whether the student has made satisfactory repayment arrangements.

See Appendix B of the ISIR Guide for the complete tables of NSLDS match results.

### Successful match

The SAR and ISIR will contain the NSLDS financial aid history only if the student's identifying information matches the database and there is relevant information for the student in the database. If the student has no defaults or overpayments or has made satisfactory repayment arrangements on a defaulted loan, the NSLDS match flag will be 1 and no C code will appear on the output document. A match flag of 2, 3, or 4 indicates that the student has defaulted loans, owes an overpayment, or both. You will need to document that the problem has been resolved before disbursing aid. Note that for "real-time" processing—if a student uses Corrections on the Web or an aid administrator uses FAA Access to CPS Online—the CPS does not match against the NSLDS database (except when a school is added), but the output document will show NSLDS data from the last transaction that did match against NSLDS. The ISIR might not, therefore, reflect the most current information.

### Resolving conflicting information in NSLDS

As noted above, you must resolve any conflicts between NSLDS and other information you have about the student before disbursing Title IV funds. 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.

### Example of incorrect NSLDS data

Lydia is a first-year undergraduate at Turner College and has never attended college before. When Turner receives Lydia's ISIR, it shows that there was a partial match, and there is some data associated with her SSN. Turner checks with NSLDS and learns that a guaranty agency is reporting a loan made years ago (when Lydia was in elementary school) under her SSN but with a completely different name and birth date. Turner determines that this isn't Lydia's loan, so she has no financial aid history in NSLDS. Turner also suggests that Lydia provide documentation that the SSN belongs to her so the school can request that NSLDS data be corrected to prevent problems for her later.

### Example of misreported information on the FAFSA

When Lester University receives Ben's ISIR, it shows that there was a discrepancy with the NSLDS database, so no financial aid history information is provided. The aid administrator at Lester asks Ben if he provided the correct name and birth date on the application. Ben says he wrote in the wrong month for his birth date, but his name is correct. The administrator checks the NSLDS database using Ben's first and last name, SSN, and date of birth. NSLDS shows the

correct birth date, but the first name of the student is Warren, not Ben. She checks again with Ben, who explains that Ben is a nickname and Warren is his real name. The administrator determines that the financial aid history associated with the SSN belongs to Ben. If the ISIR was not rejected, she could disburse aid without requiring a correction, but may also wait for the ISIR correction before disbursing aid.

## No data from match

There are several reasons why an output document may not have financial aid history information: for example, if the application was rejected for lack of a signature or if identifying information was missing. For other cases, you can check the NSLDS flags reported in the “FAA Information” section.

- *Partial match.* If the student’s Social Security Number (SSN) is in the NSLDS database but the first name or date of birth don’t match what the student reported, no financial aid history will be reported and the output document will have an NSLDS match flag of “7” and a C code. There will also be a comment explaining why the financial aid history isn’t given and directing the student to work with the school to resolve any discrepancies. A partial match **requires resolution**; otherwise you won’t have information from the Department on defaults and overpayments. If the student originally reported incorrect identifying information, you can have them submit correct information, which will be sent through the match again. If the student did not submit incorrect identifying information, you can call the NSLDS customer support center for help with determining the identifiers associated with the SSN in the NSLDS database. If you discover the discrepancy is due to the student misreporting the name or date of birth on the FAFSA, you should have the student make a correction. However, you may use the NSLDS record to determine the student’s eligibility; you don’t need to wait for the corrected data to be reported.

  If you find that the financial aid history associated with the student’s SSN doesn’t belong to the student, you should assume that the student has no relevant financial aid information. You may request that the data in NSLDS be corrected by providing relevant supporting documents. NSLDS will work with the previous data providers to correct the identifiers. You aren’t required to request a correction; however, doing so will prevent the same FAFSA response in subsequent award years.

- *Student not in database.* If a match with NSLDS is completed but there’s no information on the student in the database, the output document will comment that the student’s SSN is not associated with any financial aid history. You can assume this is correct unless you have conflicting information. If you believe NSLDS should show a loan history, help the student by contacting the appropriate loan servicer or, for a Federal Family Education Loan (FFEL), guaranty agency.
- *No relevant history.* If a student’s SSN matches a record in the NSLDS database but there’s no relevant financial aid history to report, no information will be on the output document, because it isn’t needed to determine the student’s aid eligibility for the current award year. Conversely, if a student has relevant prior data, for example a prior Pell award, that will appear on the SAR/ISIR. The SAR and ISIR will have a comment that the student’s record was matched with NSLDS but no information was found to print on the NSLDS page.
- *Processing problem.* If there was a problem with the match, the SAR and ISIR won’t include financial aid history information. The output document will have a C code and a comment explaining that the CPS couldn’t determine whether the student has loans in default and will direct them to contact the financial aid administrator. You must get the student’s financial aid history before disbursing aid. If the student has to make corrections of any kind, their information will go through the match again when the corrections are submitted, and you can use the results of that match to determine eligibility.

## Postscreening—changes after initial match

Once you receive the financial aid history through NSLDS, you aren’t required to check for changes to the data before disbursing funds to the student. But if you learn from NSLDS or another source that the student was not or is no longer eligible, you must not disburse any more Title IV funds and must help make sure the student arranges to repay the aid for which they weren’t eligible.

NSLDS uses a postscreening process to let you know when there are significant changes (such as a defaulted loan or an overpayment) to a student’s financial aid history. If postscreening identifies changes that may affect the student’s eligibility, the CPS will generate new output documents so schools that are listed for receipt of the student’s FAFSA information will automatically be notified. Items that have changed since the last transaction are marked on the output

document with a “#” sign, and the reason code for the postscreening will be given.

To help you identify when NSLDS data has changed, the document will include an NSLDS transaction number in the “FAA Information” section with the other match flags. This is the number of the last transaction on which NSLDS data changed, so if you receive an ISIR on which that number is higher than the one on the ISIR you used to determine the student’s eligibility, you must review the NSLDS data on the new ISIR to be sure there are no changes affecting the student’s eligibility (be aware of the Pell Lifetime Eligibility Used (LEU) limits and codes; for more on Pell LEU, see *Volume 7*). There will be postscreening codes (see *The ISIR Guide* for the list) to help determine what changed.

## NSLDS Support Center

1-(800)-999-8219

## Unusual enrollment history (UEH)

There is a flag in NSLDS for students whose pattern of enrollment and/or award history for either Federal Pell Grants or Direct Loans (other than a Direct Consolidation Loan or Parent PLUS Loan) is identified as unusual. You are required to respond to the unusual enrollment history (UEH) status for Pell and/or Direct Loans as described below.

The CPS will flag the UEH on the student’s SAR/ISIR. A value of “N” requires no action, as it denotes no unusual history. A value of “2” or “3” in the UEH field (represented as SAR comment codes 359 and 360, respectively) requires review and resolution by your school (see below). UEH flags 2 and 3 do not necessarily mean the student has improperly received Pell or Direct Loan funds, but it is a sign of unusual activity, for example, receiving Pell and/or Direct Loans at multiple schools in the same semester, or receiving aid and then withdrawing before earning any credit.

***To resolve a UEH flag of “2,”*** (SAR comment code 359) you must check the student’s enrollment and financial aid records to determine if, during any of the four award years prior to the current award year (i.e., 2019-20, 2020-21, 2021-22, and 2022-23), the student received a Pell Grant or Direct Loan at your school. If so, no further action is required unless you have reason to suspect that the student in question remains enrolled just long enough to collect student aid funds before withdrawing. In such a case, you must follow the guidance below for UEH flag “3.” If not, using information from NSLDS, you must identify all schools where the student received a Pell Grant or Direct Loan for any of the 2019-20, 2020-21, 2021-22, and 2022-23 award years. You must then determine whether academic credit was earned at each of those schools during the award year for which the student received a Pell Grant or Direct Loan. Based on those determinations, you may need to discuss further with the student. See Dear Colleague Letter GEN-15-05 for additional information.

***To resolve a UEH flag of “3,”*** (SAR comment code 360) you must check the student’s academic records to determine if they received academic credit at the schools attended during any one of the four award years prior to the current award year (i.e., 2019-20, 2020-21, 2021-22, and 2022-23). Using data from NSLDS, you must determine, for each prior attended institution for each student, whether academic credit was earned during the award year in which the student received Pell or Direct Loan funds. Academic credit is considered for this purpose to mean completing one (or more) clock-hour or credit-hour.

For UEH flag 3, if the student **did** earn academic credit at all of the schools previously attended for a relevant award year, no further action is required unless you have reason to believe that the student has had a practice of enrolling just long enough to receive credit balances before withdrawing. In such cases, follow the guidance below for cases when academic credit is not earned (next paragraph). Please note that when reviewing academic completion, you are not required to obtain official academic transcripts. You can use unofficial transcripts, letters from the school, grade reports, etc.

For UEH flag 3, when academic credit is **not** earned at a previously attended school, and, if applicable, at your school, you must obtain documentation from the student explaining why the student failed to earn academic credit. You must determine whether the documentation provided supports the reasons described by the student and that the student did not enroll only to receive credit balance funds. Acceptable reasons may include personal illness, a family emergency, a

change in where the student lived, and military obligations, or an academic complication, such as unexpected academic challenges, or the student having determined that the academic program in question did not meet their needs. You should, to the maximum extent possible, obtain third party documentation to support the student's claim.

In similar fashion to the exercise of professional judgment, you must determine whether the circumstances of the failure of the student to receive academic credit, as evidenced by the student's academic records and documentation, support the continuation of Title IV eligibility. If the student with a UEH flag of 2 or 3 fails to provide compelling reasons and documentation for a failure to receive academic credit for a period for which they received Title IV funds, you must conclude that their eligibility is terminated. Your determination is final and is not subject to appeal to the Department. You must document and maintain a file of reason(s) for the decision for possible review.

***When a student's eligibility is terminated*** in this way, you must provide information to the student on how they may subsequently regain eligibility, and the student must be given an opportunity to question and appeal the decision **to your school**, consistent with the opportunities to question and appeal similar determinations such as SAP and professional judgment determinations. Since the basis for denial is lack of academic performance, successful completion of academic credit may be considered basis for renewing the student's Title IV eligibility, assuming they are in all other ways eligible for the aid in question. This could include meeting the requirements of the plan that you established with the student, although such a plan is not necessarily required. When a student regains eligibility after losing it in this manner, the student's eligibility is retroactive to the beginning of the current period of enrollment, for Direct Loans, and for all other types of Title IV aid, retroactive to the beginning of the current payment period.

***If you approve the student's continuing eligibility***, you may choose to require the student to establish an academic plan, similar to the type of plan used to resolve SAP appeals. You may also wish to counsel the student about the Pell LEU limitation and the impact of the student's attendance pattern on future Pell Grant eligibility (see *Volume 7* and DCL GEN-12-01 and GEN-12-18).

## Resolving UEH flags in a subsequent award year

When a student receives a UEH flag that includes an award year(s) that was resolved by the reviewing school for a previous award year, that school must determine if there was a change in the schools the student attended for that award year(s). If there were no changes to the schools the student attended, no further action is necessary. If the student attended another school(s) that was not previously reviewed and received Pell Grant and/or Direct Loans at that school(s), the reviewing school must determine if the student earned academic credit at the additional school(s) under review. If the student did not earn academic credit at the additional school(s) under review, the student must provide documentation explaining why academic credit was not earned.

## UEH change for Undergraduate to Graduate Student Progression

UEH is assessed separately for undergraduate enrollment and graduate enrollment. This reduces the number of UEH flags, but still correctly flags students whom the UEH flags are intended to flag for further scrutiny. For more details on UEH and graduate students, see the Electronic Announcement of Jan 20, 2016.

## Unusual enrollment history

Electronic Announcement Jan 10, 2017, DCL GEN-15-05, DCL GEN-13-09

## Adding a school and the NSLDS match

When a school is added after the FAFSA has been submitted, the FAFSA goes through the NSLDS match again rather than being processed in real time. This ensures that the new school receives the latest financial aid history (FAH) on the ensuing transaction. This does not affect schools' responsibility to use transfer student monitoring.

To supplement the ISIR and ensure a student's history is considered, some schools submit entire rosters of FAH requests. See the TSM/FAH processes and batch file layouts posted in the Knowledge Center.

### Documenting credits earned when a school has closed

For UEH flag 3, or when you believe that the student remains enrolled just long enough to collect a credit balance (refund), you must review the student's academic records to determine if the student earned any academic credit at each school the student attended during the prior four award year periods (i.e., for 2023-24, assess 2022-23, 2021-22, 2020-21, and 2019-20).

If the student informs you that they previously attended and received Title IV aid at a school which has closed, you must first verify that the school has closed. You may determine this using the Department's Closed School Reports page.

If the student states that academic credits were earned at the closed school, you must request documentation that indicates academic credits were earned. Acceptable forms of documentation could include a grade report, or an official or unofficial transcript.

If the student does not have any documentation of academic credit earned at the closed school, and you have obtained documentation that shows the student earned academic credit at all the other schools corresponding with the UEH flag, you may accept a signed and dated statement from the student to substantiate their claim. The statement must provide the name of the closed school, the academic period or calendar year in which the academic credit was earned, and, if known, the type and number of academic credits which were earned. If the student is unsure of the number and/or type of academic credits earned at the closed school, the student must state, in general terms, that academic credit was earned at the closed school. If the student has not earned academic credits at the closed school, you must follow the guidance in Dear Colleague Letter GEN-15-05.

### Reporting data for students at closed schools

Electronic Announcement Sept 21, 2016

## Checking the Financial Aid History for Transfer Students

Before disbursing Title IV funds to a transfer student, you **must** obtain their financial aid history if they may have received aid at another school since your latest ISIR. The NSLDS Transfer Student Monitoring Process (TSM) was established to allow schools to use NSLDS information for its transfer students.

- *Reviewing the student's NSLDS financial aid history.* If a student transfers to your school during the award year, you'll need to review their aid history on the ISIR or online at the NSLDS website. From this, you can determine:
  - Whether the student is in default or owes an overpayment on an FSA loan or grant;
  - The student's Pell Grant and the amount already disbursed for the award year;
  - Data pertaining to TEACH grants, including those converted to loans;
  - The student's balance on all FSA loans; and
  - The amount and period of enrollment for all FSA loans for the award year.

  Usually the financial aid history on the ISIR will be enough, but there are cases where you might check NSLDS for more information. For example, if the student has more than six loans, the ISIR won't have detailed information for some of the loans. If you need that level of detail for those loans, you can get the information from NSLDS. Or, as discussed previously, you might need to use NSLDS to resolve a partial match situation (see "Partial match" in "NSLDS match" section, earlier in this chapter).
- *Transfer student monitoring process.* You must send NSLDS identifying information for students transferring to your school during the award year so that NSLDS can notify you of changes to their financial aid history. You may send information for students who have expressed an interest in attending your school even if they have not yet formally

applied for admission.

Through transfer student monitoring, NSLDS will alert you to any relevant changes in the transfer student's financial aid history—other than the default and overpayment information reported in the postscreening process—that may affect the student's current award(s). There are three steps: inform, monitor, and alert.

- *Inform.* You **must** identify students who are transferring to your school by creating a list of transfer students on the NSLDS website or by sending the list to NSLDS as an electronic batch file through the Student Aid Internet Gateway (SAIG). You may use either or both methods, and a change in method does not require prior notification to the NSLDS Customer Service Center.
- *Monitor.* NSLDS will monitor these students for a change in financial aid history that may affect their current awards and alert you when a new loan or grant is being awarded, a new disbursement is made on a loan or grant, or a loan or grant (or a single disbursement) is cancelled. Note that defaulted loans and overpayment information are not monitored in transfer student monitoring, as they are already covered in the postscreening process. If the student has not listed your school in Step Six when filing the FAFSA, they must add your school for you to receive the postscreening information.
- *Alert.* Finally, if changes are detected for one or more of your students and NSLDS creates an alert, it will also send an email notification reminder to the address given on the School Transfer Profile setup page. Your school's designated contact person may then either review the alert list on the NSLDS for Financial Aid Professionals website or download a batch file, if batch alerts were requested, through SAIG in report or extract format.

- *Timing of the disbursement.* To pay the student, you'll need to have an output document and an accurate Expected Family Contribution (EFC). A valid ISIR will include that and the student's financial aid history, and it will also tell you if they are in default or owe an overpayment. The postscreening process will send you another ISIR if the student subsequently goes into or out of default or owes or ceases to owe an overpayment.

  When you initiate transfer monitoring for a student, NSLDS will alert you to significant award changes since you last received an ISIR or alert for the student; this will continue for 30 to 120 days (depending on the monitoring duration you've established) after the enrollment begin date. If you start transfer monitoring before you receive ISIRs for a student, NSLDS will track changes in their financial aid history from the date of your request or a future monitoring begin date you choose.

  The regulations state that a school may not make a disbursement to the student for seven days following the transfer monitoring request to NSLDS, unless it receives an earlier response from NSLDS or checks the student's current financial aid history by accessing NSLDS directly. Therefore, it's usually a good idea to submit the student's name to NSLDS for monitoring as soon as possible, even if they have not yet decided to enroll at your school.

- *Consequences when a transfer student subsequently is found to be ineligible for all or part of an aid disbursement.* If the school has followed the proper procedures for obtaining financial aid history information from NSLDS, it is not liable for any overpayments if the student's situation subsequently changes. However, the student will be liable for the overpayment in this situation, and you may not pay the student further Title IV funds until the overpayment is resolved. (See *Volume 4, Chapter 3* for information on resolving overpayments.)

## Transfer student monitoring

Through this process for checking the eligibility of transfer students, you may either check the student's financial aid history on the NSLDS website for professionals, or wait seven days (because NSLDS issues alerts weekly) after you've submitted the student's information for monitoring to receive an alert if data has changed. See Dear Partner Letters GEN-00-12 and GEN-01-09 and: *https://nsldsfap.ed.gov*

## Mid-year transfer students

If a student self-identifies as a mid-year transfer student, or if a school has any information that indicates the student might have previously attended another postsecondary school during the award year, the school must request transfer monitoring of the student in NSLDS. A school's coordinating official (see Volume 2) is responsible for ensuring that a school does not ignore information the school has about a student's prior or concurrent enrollment.

Information on modernized NSLDS website

## Getting the student's financial aid history

There are several ways for you to get a student's financial aid history from NSLDS. You can:

- use the NSLDS Financial Aid History section of the ISIR,
- log on to the NSLDS Professional Access website and access the data online for a student,
- for multiple students, use the FAT 001 Web report, which you submit from the Reports tab on the NSLDS site (you retrieve the results through the SAIG), or
- send a batch TSM/FAH Inform file to request aid history data for several students, which will be returned in either extract or report format through SAIG. The TSM/FAH processes and batch file layouts are posted on the Knowledge Center.

# Effect of Bankruptcy or Disability Discharge

A student who has filed for bankruptcy or had a loan discharged for disability may need to give additional documentation before receiving aid.

## Bankruptcy

A student with an FSA loan or grant overpayment that has been discharged in bankruptcy remains eligible for FSA loans, grants, and work-study (NSLDS loan status code BC for loans that did not default and status code DK or OD for loans that defaulted prior to the bankruptcy discharge). The Bankruptcy Reform Act of 1994 prohibits denial of aid based solely on filing for, or having a debt discharged in, bankruptcy.

A borrower who lists a defaulted FSA loan or grant overpayment in an active bankruptcy claim (NSLDS loan status code DO) is not eligible for further Title IV funds unless she provides you with documentation from the holder of the debt stating it is dischargeable . A borrower who includes a non-defaulted FSA loan in an active bankruptcy claim, so that collection on the loan is stayed, is eligible for aid as long as they have no loans in default (including the stayed loan).

## Total and permanent disability (TPD) discharges

Perkins Loans, FFEL and Direct Loans, as well as TEACH Grant service obligations may qualify to be discharged if the borrower or TEACH Grant recipient becomes totally and permanently disabled. Except in the case of veterans who qualify for a total and permanent disability (TPD) discharge based on a determination by the Department of Veterans Affairs (VA) that they are unemployable due to a service-connected disability, the Department of Education monitors the status of borrowers who have received a TPD discharge for a three-year period. If a borrower requests a new loan or TEACH Grant within three years of a prior TPD discharge, their prior loan and/or TEACH Grant service obligation must be reinstated.

Note that a borrower for whom data is obtained from the VA showing that the borrower is "totally and permanently disabled" as defined in regulation, will be automatically eligible for loan discharge without additional documentation or action from the student—there is an automatic TPD discharge process for borrowers identified as eligible through a data match with the Social Security Administration.

The NSLDS loan status code for veteran TPD discharges is VA, and for non-veterans, the TPD status codes are DI and PD. The DI loan status code indicates that the borrower is still in the post-discharge monitoring period, while the PD status code indicates that the borrower has completed the monitoring period.

***Taking out another loan.*** If a borrower whose prior loan was discharged due to a total and permanent disability wishes to take out a Direct Loan or wishes to receive a TEACH grant, they must obtain a certification from a physician (who is a

doctor of medicine or osteopathy licensed to practice in the United States) that they have the ability to engage in substantial gainful activity, and must sign a statement acknowledging that the new loan or the TEACH Grant service obligation can't later be discharged for any present impairment unless it deteriorates so that the individual is again totally and permanently disabled.

There are no restrictions upon receiving Title IV aid other than Direct Loans or TEACH Grants after a prior TPD discharge.

If the borrower requests a new loan or TEACH Grant during the post-discharge monitoring period, they must also resume payment on the old loan before receipt of the new loan or TEACH grant. If the loan on which the borrower must resume payment was in default when it was discharged, it remains in default upon reinstatement, and the student must resolve the default (see the Resolving Default Status section below) before receiving the new loan, in addition to meeting the other requirements described.

A borrower who received a TPD discharge based on a determination from the VA that they are unemployable due to a service-connected disability is not subject to a monitoring period and is not required to resume payment on the discharged loan as a condition for receiving a new loan. But such a student must still provide the physician's certification and borrower acknowledgement described above.

When it is not possible to determine the precise status of a potentially discharged loan in NSLDS, you should contact the Department's Total and Permanent Disability (TPD) servicer, Nelnet.

Phone: 1-888-303-7818
Fax: 303-696-5250

Nelnet is referred to in NSLDS as "DDP," or the Disability Discharge Provider.

### Total and permanent disability discharge

*www.disabilitydischarge.com/faqs/*

34 CFR 674.61(b),(c) (Perkins); 34 CFR 682.402(c) (FFEL)

34 CFR 685.213 (Direct Loan); 34 CFR 686.42(b) (TEACH Grant)

## Resolving Default Status

With the exception of the Fresh Start initiative and Fresh Start period, a student in default on an FSA loan can't receive further Title IV funds until they resolve the default, which they can do in a few ways:

- *Repayment in full (including consolidation).* A student can resolve a default and regain eligibility for Title IV funds by repaying the loan in full (loan status code DP). The student regains eligibility whether repayment was completed voluntarily or involuntarily (examples of the latter include IRS offset and wage garnishment). If the school writes off a regulatorily permissible amount that the student repays (for Perkins), that counts as paying the loan in full (code DC). If a defaulted loan is consolidated, it is also counted as paid in full (code DN). However, if the loan holder writes off the entire loan (except for Perkins), it isn't considered paid in full, and the student remains ineligible for Title IV funds (code DW). This condition is normally permanent unless the borrower subsequently pays in full (which is unlikely if the loan holder originally wrote off the loan).
  If a student has paid a defaulted loan in full but the SAR and ISIR have a comment showing that they are ineligible because of the default, the student must give you documentation proving that the loan was paid.

- *Satisfactory repayment arrangements.* A student in default on an FSA loan can be eligible for Title IV funds if they have made repayment arrangements that are satisfactory to the loan holder. After the student makes six consecutive, full, voluntary payments on time, they regain eligibility for Title IV funds (loan status code DX). Voluntary payments are those made directly by the borrower and do not include payments obtained by federal

offset, garnishment, or income or asset execution. A student may regain eligibility under this option only one time. You can pay the student as soon as you have documentation that they have made satisfactory repayment arrangements. For example, the loan holder may update the code for the loan in NSLDS to DX once six payments have been made; you could then use that as confirmation of the repayment arrangement. You may also use a written statement from the loan holder indicating that the student has made satisfactory repayment arrangements as documentation of the arrangement.

- *Loan rehabilitation.* Although a student can regain eligibility for all Title IV funds by making satisfactory repayment arrangements, the loan is still in default. After the student makes more payments, the loan may be rehabilitated, that is, it won't be in default anymore, and the student will have all the normal loan benefits, such as deferments. A defaulted Direct Loan or FFEL Program loan is rehabilitated once the borrower makes nine full, voluntary payments on time (no later than 20 days after the due date) within 10 consecutive months. See *Volume 6* for information on rehabilitation of defaulted Perkins Loans.

## Example: documenting loan "paid in full"

Carl had a Direct Loan as an undergraduate that went into default while he was out of school. When he applies for financial aid so he can attend graduate school, his ISIR shows that the loan is still in default. Carl tells the aid administrator at the school he wants to attend that he paid off the loan last year. The aid administrator asks Carl to bring in a letter from the Default Resolution Group documenting that the loan has been paid and advises Carl that he should ask the Default Resolution Group to update his status in NSLDS.

## Satisfactory repayment and rehabilitation

HEA Sec. 428F(a) and (b), 464(h)(1) and (2)

General Provisions: 34 CFR 668.35(a)(2)

34 CFR 682.200(b), 682.405 (FFEL); 34 CFR 685.102(b), 685.211(f) (Direct Loan)

## NSLDS Loan Status Codes 2023–24 SARs & ISIRs

| Code | Status | Eligible for FSA funds |
|---|---|---|
| AL | Abandoned Loan | Yes |
| BC | No Prior Default Bankruptcy Claim, Discharged | Yes, because loan was not in default and was discharged |
| BK | No Prior Default Bankruptcy Claim, Active | Yes, because loan was not in default |
| CA | Cancelled (For Perkins means Loan Reversal) | Yes |
| CS | Closed School Discharge | Yes |
| DA | Deferred | Yes |
| DB | Defaulted, then Bankrupt, Active. (Perkins: all bankruptcies; FFELP and Direct Loans: Chapter 13) | No, unless debtor can show that loan is dischargeable. See Dear Colleague Letter GEN-95- 40, dated September 1995. |
| DC | Defaulted, Compromise | Yes, because compromise is recognized as payment in full |
| DD | Defaulted, Then Died | No, because if borrower is reapplying, then loan status is in error |
| DE | Death | No, because if borrower is reapplying, then loan status is in error |
| DF | Defaulted, Unresolved | No |
| DI | Disability | Yes, however, disbursing further aid within the 3-year monitoring period may |

| | | |
|---|---|---|
| | | revoke the discharge |
| DK | Defaulted, Then Bankrupt, Discharged. (Perkins: all bankruptcies; FFELP and Direct Loans: Chapter 13) | Yes, because defaulted loan has been totally discharged |
| DL | Defaulted, in Litigation | No |
| DN | Defaulted, Then Paid in Full Through Consolidation Loan | Yes |
| DO | Defaulted, Then Bankrupt, Active, other. (FFELP and Direct Loans in Chapters 7, 11, and 12) | No, unless debtor can show that loan is dischargeable. See Dear Colleague Letter GEN-95-40, dated September 1995. |
| DP | Defaulted, Then Paid in Full | Yes, because loan was paid in full |
| DR | Defaulted Loan Included in Roll-Up Loan | Yes, because the loan was combined with other loans and subrogated to the Department, which reported the same information to NSLDS in one loan. The status of that record will determine eligibility. |
| DS | Defaulted, Then Disabled | Yes, because loan debt is cancelled, however, disbursing further aid within the 3-year monitoring period may revoke the discharge |
| DT | Defaulted, Collection Terminated | No |
| DU | Defaulted, Unresolved | No |
| DW | Defaulted, Write-Off | No [Note that there is no status code for Perkins write-offs, which are for amounts less than $50; see 34 CFR 674.47(h)] |
| DX | Defaulted, Satisfactory Arrangements, and Six Consecutive Payments | Yes, assuming student continues to comply with repayment plan on defaulted loan, or is granted forbearance by the GA |
| DZ | Defaulted, Six Consecutive Payments, Then Missed Payment | No, loan is back in active default status |
| FB | Forbearance | Yes |
| FC | False Certification Discharge | Yes |
| FR | Loans obtained by borrowers convicted of fraud in obtaining FSA funds | No |
| FX | Loan once considered fraudulent but is now resolved | Yes |
| IA | Loan Originated | Yes |
| ID | In School or Grace Period | Yes |
| IG | In Grace Period | Yes |
| IM | In Military Grace | Yes |
| IP | In Post-Deferment Grace (Perkins only) | Yes |
| OD | Defaulted, Then Bankrupt, Discharged, other (FFELP and Direct Loans in Chapters 7, 11, and 12) | Yes, because defaulted loan has been totally discharged |
| PC | Paid in Full Through Consolidation Loan | Yes, because it does not matter if the consolidation loan was a FFEL or Direct Loan, nor whether underlying loans were in default |
| PD | Permanently Disabled | Yes, borrower considered permanently disabled |
| PF | Paid in Full | Yes |
| PM | Presumed Paid in Full | Yes |
| PN | Non-defaulted, Paid in Full Through Consolidation Loan | Yes |
| PZ | Parent PLUS loan for a student who has died | No for the student, yes for the parent |
| RF | Refinanced | Yes, because defaulted loans cannot be refinanced |

| | | |
|---|---|---|
| RP | In Repayment | Yes |
| UA | Temporarily Uninsured—No Default Claim Requested | Yes |
| UB | Temporarily Uninsured—Default Claim Denied | Yes, because the loan is not a federal loan while temporarily uninsured |
| UC | FFEL: Permanently Uninsured/Unreinsured—Non-defaulted Loan. Perkins: Non-defaulted Loan Purchased by School | Yes |
| UD | FFEL: Permanently Uninsured/Unreinsured—Defaulted Loan. Perkins: Defaulted Loan Purchased by School | Yes, because the loan is no longer a federal loan |
| UI | Uninsured/Unreinsured | Yes, does not matter if the loan was in default |
| VA | Veterans Administration Discharge | Yes |
| XD | Defaulted, Satisfactory Arrangements, and Six Consecutive Payments | Yes, assuming student continues to comply with repayment plan on defaulted loan, or is granted forbearance by the GA/ED servicer |