

Chapter 5

Loan Limit Proration

Proration Overview

The annual maximum loan amount an undergraduate student may receive must be prorated (reduced) 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.

With one exception (see "Proration of the Annual Loan Limit for Students who Graduate Early From Clock-Hour Programs" later in this chapter), the annual loan limits for Direct Subsidized Loans and Direct Unsubsidized Loans are prorated only in these two situations. Loan limits are not prorated based on a student's enrollment status, such as when a student is enrolled less than full time, or when a student is enrolled for a period of less than a full academic year that is not a remaining period of study.

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. This is because 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. Students taking preparatory coursework or teacher certification coursework are not considered to be enrolled in a program for purposes of awarding *Title IV* aid.

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 actual loan amount a student is eligible to receive. In some cases, the loan amount a student is eligible to receive (based on costs, SAI, and OFA) may be less than the prorated loan limit.

Loan Limit Proration

[34 CFR 685.203\(a\), \(b\), \(c\)](#)

Use of Fractions vs. Decimals When Prorating Loan Limits

As we explain in more detail below, proration involves multiplying the annual loan limit by a fraction. You may choose to convert the fraction to a decimal and then multiply the annual loan limit by the decimal, but this conversion is not a requirement. However, you should be consistent in the method you use, since the fraction and decimal calculations sometimes result in slightly different prorated loan limits, as shown in the examples later in the chapter.

Using the School's Academic Year Definition If Longer Than the Title IV Minimum

As explained above, proration of the annual loan limit is required when an undergraduate student is enrolled in a program that is shorter than an academic year or is enrolled in a remaining period of study that is shorter than an academic year. 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.

Separate Calculations for the Combined Subsidized and Unsubsidized Annual Loan Limit and the Maximum Subsidized

Annual Loan Limit

As explained in Chapter 4 of this volume, 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 below.

Prorating Loan Limits for Programs Shorter Than an 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 —

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

$$\text{Semester, trimester, quarter, or clock hours in academic year}$$

or

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

$$\text{Weeks in the academic year}$$

The result is the prorated annual loan limit for that program.

Proration Examples: Programs Shorter Than an Academic Year

Examples 1 and 2 illustrate how the prorated annual loan limit is determined when a student is enrolled in a program that is shorter than an academic year.

Volume 8, Chapter 5, Example 1: Clock-Hour Program Shorter Than an Academic Year

A dependent student is enrolled in a 400 clock-hour, 12-week program (a “short-term program” as described in *Volume 2*, Chapter 2). The school defines the academic year for this program as 900 clock hours and 26 weeks of instructional time.

To determine the maximum loan amount the student can borrow, convert the fractions based on weeks and hours to decimals:

$$12 \text{ weeks in program} / 26 \text{ weeks in academic year} = 0.46$$

$$400 \text{ hours in program} / 900 \text{ hours in academic year} = 0.44$$

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):

$$\$5,500 \times 0.44 = \$2,420 \text{ combined subsidized and unsubsidized prorated annual loan limit}$$

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

$$\$3,500 \times 0.44 = \$1,540 \text{ subsidized prorated annual loan limit}$$

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

Note: In Example 1 above and in the other proration examples that follow, the fractions are converted to decimals. As an alternative you could choose to multiply the annual loan limit by the original fraction, though you should be consistent in using one method or the other. Using the fraction 400/900 in Example 1 instead of the decimal 0.44 would result in a slightly higher prorated loan limit: $\$5,500 \times 400/900 = \$2,444$.

Volume 8, Chapter 5, Example 2: Non-Term Credit-Hour Program Shorter Than an Academic Year

An independent student is enrolled in a 24 quarter-hour, 20-week program. The school defines the academic year for this program as 36 quarter hours and 30 weeks of instructional time.

To determine the maximum loan amount the student can borrow, convert the fractions based on weeks and quarter-hours to decimals:

$$20 \text{ weeks in program} / 30 \text{ weeks in academic year} = 0.67$$

$$24 \text{ hours in program} / 36 \text{ hours in academic year} = 0.67$$

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):

$$\$9,500 \times 0.67 = \$6,365 \text{ combined subsidized and unsubsidized prorated annual loan limit}$$

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

$$\$3,500 \times 0.67 = \$2,345 \text{ subsidized prorated annual loan limit}$$

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

Note: Using the fraction 24/36 in Example 2 instead of the decimal 0.67 would result in a slightly lower prorated loan limit: $\$9,500 \times 24/36 = \$6,333$.

Prorating Loan Limits for Remaining Periods 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 (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 remaining period of study that is shorter than an academic year. With one exception, if a student originally enrolls for a remaining period of study that is a full academic year in length, but completes the program in less than a full academic year, there is no requirement to retroactively prorate the annual loan limit (for the exception, see "Proration of the Annual Loan Limit for Students Who

Graduate Early From a Clock-Hour Program” later in this chapter).

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 a Scheduled Academic Year (SAY; see Chapter 6), the number of terms covered in the school’s *Title IV* academic year usually does not include a summer “header” or “trailer” term.

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

Similarly, if a student 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, the loan limit must be prorated if the student receives a loan for the final semester.

Note that 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) is 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, you determine the prorated loan limit for a student enrolled in a remaining period of study less than an academic year by multiplying the applicable annual loan limit by the following fraction:

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

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.**

Proration Examples: Remaining Periods of Study Shorter Than an Academic Year

Examples 3 through 7 illustrate how the prorated annual loan limit is determined when a student is enrolled in a remaining period of study shorter than an academic year.

Volume 8, Chapter 5, Example 3: Remaining Period = One Quarter

A dependent student is enrolled in a two-year credit-hour program offered in standard terms (quarters). The school defines the academic year for the program as 36 quarter hours and 30 weeks of instructional time (covering three quarters: fall, winter, and spring).

The student has attended the program for six quarters (two academic years), but to finish the program needs to complete an additional six hours (half time) in the fall quarter of the next academic year:

Fall (half time: 6 hours)	Winter (not enrolled)	Spring (not enrolled)
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To determine the prorated Direct Loan limit for the student’s remaining period of study (one quarter), convert the fraction based on the hours that the student is expected to attend and the hours in the academic year to a decimal:

$$6 \text{ hours in fall} / 36 \text{ hours in academic year} = 0.17$$

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):

$$\$6,500 \times 0.17 = \$1,105 \text{ combined subsidized and unsubsidized prorated annual loan limit}$$

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

$$\$4,500 \times 0.17 = \$765 \text{ subsidized prorated annual loan limit}$$

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

Volume 8, Chapter 5, Example 4: Remaining Period = Two Semesters, With Less Than Half-Time Enrollment in One Term

The student from Example 3 transfers to a BA program at a different school. The academic year for the program contains two semesters, fall and spring. During the second year of the BA program, the student 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:

Fall (full time)	Spring (less than half time)
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Although the student is not eligible to receive a Direct Loan for the spring term, the remaining period of study (two semesters) is equal to a full academic year. Therefore, proration of the annual loan limit is not required if the student receives a Direct Loan for the fall term.

Volume 8, Chapter 5, Example 5: Remaining Period Shorter Than an Academic Year, With Less Than Half-Time Enrollment in One Term

A dependent fourth-year undergraduate is enrolled in a program with a defined academic year of 36 quarter hours and 30 weeks of instructional time, covering three quarters (fall, winter, and spring). The student will attend the fall and winter quarters, but not the spring quarter, and will graduate at the end of the winter term.

The student 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:

Fall	Winter	Spring
(full time: 12 hours)	(less than half time: 3 hours)	(not enrolled)

The student's final period of study (two terms) is shorter than an academic year, so the annual loan limit must be prorated. However, because the student 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. Only the 12 quarter hours will be used for the fall term are to determine the prorated annual loan limit.

To determine the prorated loan limit for the final period of study, convert the fraction based on the hours that the student is expected to attend in the fall quarter and the hours in the academic year to a decimal:

$$12 \text{ hours enrolled in fall} / 36 \text{ hours in academic year} = 0.33$$

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):

$$\$7,500 \times 0.33 = \$2,475 \text{ combined subsidized and unsubsidized prorated annual loan limit}$$

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

$$\$5,500 \times 0.33 = \$1,815 \text{ subsidized prorated annual loan limit}$$

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

Volume 8, Chapter 5, Example 6: Remaining Period = Two Quarters, Separated by a Period of Non-Enrollment

A school has an academic year that covers three quarters: fall, winter, and spring. An independent fourth-year undergraduate will be enrolled full time in the fall and spring quarters, but will not attend the winter quarter, and will graduate at the end of the spring quarter:

Fall	Winter	Spring
(full time: 12 hours)	(not enrolled)	(full time: 12 hours)

Because the fall quarter is in the same academic year as the student's final quarter of attendance, it is part of the remaining period of study, even though there is a term between the fall and spring quarters in which the student will not be enrolled. As explained under "Loan Periods" in Chapter 2, the school may originate a single loan for a loan period covering the fall, winter, and spring quarters (but no costs associated with the winter quarter may be included when determining the loan amount the student is eligible to receive).

The remaining 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 total number of hours for which the student is enrolled in the fall and spring quarters.

The prorated loan limit is determined by converting the fraction based on the combined number of hours in the fall and spring terms to a decimal:

$$24 \text{ hours enrolled in fall and spring} / 36 \text{ hours in academic year} = 0.67$$

Note: In this example the decimal is rounded up:

$$24/36 = 0.666, \text{ rounded up to } 0.67$$

It would also be acceptable to truncate the decimal to 0.66, but you should be consistent in the method used, since rounding up vs. truncating will result in slightly different amounts (see below).

Multiply this decimal by the combined subsidized and unsubsidized annual loan limit for an independent fourth-year undergraduate (\$12,500, not more than \$5,500 of which may be subsidized):

$$\$12,500 \times 0.67 = \$8,375 \text{ combined subsidized and unsubsidized prorated annual loan limit for the fall and spring terms.}$$

To determine the maximum portion of the \$8,375 prorated annual loan limit that the student may receive in subsidized loan funds for the fall and spring terms, multiply the maximum subsidized annual loan limit of \$5,500 by the same decimal (0.67):

$$\$5,500 \times 0.67 = \$3,685 \text{ subsidized prorated annual loan limit for the fall and spring terms.}$$

The maximum loan amount the student may receive for the two terms in the final period of study (fall and spring) combined is \$8,375, not more than \$3,685 of which may be subsidized.

As an alternative, the school could choose to originate separate fall-only and spring-only loans. With this option, 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:

$$12 \text{ hours enrolled in term} / 36 \text{ hours in academic year} = 0.33$$

This decimal is then be multiplied by the combined subsidized and unsubsidized annual loan limit for an independent fourth-year undergraduate:

$$\$12,500 \times 0.33 = \$4,125 \text{ combined subsidized and unsubsidized prorated annual loan limit for a single term (fall or spring)}$$

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

$$\$5,500 \times 0.33 = \$1,815 \text{ subsidized prorated annual loan limit for a single term (fall or spring)}$$

The prorated loan limit for each single-term loan (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 the student 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.

Note: With the alternate approach of originating separate fall-only and spring-only loans, the total loan amount the student receives is slightly less than the total amount determined using the single loan approach with a fall-winter-spring loan period, as described earlier in this section. This is due to rounding up the fraction to 0.67 in the single loan approach. If the fraction used in the single-loan period approach were instead truncated to 0.66, both approaches would result in the same total loan amount.

A school has an 1800 clock-hour program with a defined academic year of 900 clock hours and 26 weeks of instructional time. A dependent undergraduate student successfully completes the first 900 clock hours of the program in 22 weeks of instructional time. However, the student must complete an additional four weeks of instructional time before receiving a second loan (see Chapter 6 of this volume).

After 26 weeks of instructional time have elapsed, the student has successfully completed 1,040 clock hours and may then receive a second loan. However, the loan limit must be prorated based on the number of clock hours remaining in the program at this point (760). To determine the prorated loan limit for the student's second loan, convert the fraction based on the number of clock hours remaining to a decimal:

$$760 \text{ hours remaining in program} / 900 \text{ hours in academic year} = 0.84$$

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):

$$\$6,500 \times 0.84 = \$5,460 \text{ combined subsidized and unsubsidized prorated annual loan limit}$$

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

$$\$4,500 \times 0.84 = \$3,780 \text{ subsidized prorated annual loan limit}$$

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 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 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 *Volume 7* for more information.)

This requirement 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 a previously prorated annual loan limit must be re-prorated.

Examples 8 and 9 illustrate the requirement described above.

A dependent student 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.

The combined subsidized and unsubsidized annual loan limit for a dependent first-year undergraduate is \$5,500, not more than \$3,500 of which may be subsidized. The student qualifies to receive the maximum annual combined loan limit in the form of a \$3,500 Direct Unsubsidized Loan and a \$2,000 Direct Unsubsidized Loan. Each loan is paid in two equal disbursements, as shown below.

Original Direct Subsidized Loan Amount \$3,500	Direct Subsidized Loan First Disbursement \$1,750	Direct Subsidized Loan Second Disbursement \$1,750
Original Direct Unsubsidized Loan Amount \$2,000	Direct Unsubsidized Loan First Disbursement \$1,000	Direct Unsubsidized Loan Second Disbursement \$1,000

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 completed, then dividing the result by the number of clock hours in the program's academic year definition:

$$(\$5,500 \times 750) \div 900 = \$4,583 \text{ prorated combined subsidized and unsubsidized annual loan limit}$$

$$(\$3,500 \times 750) \div 900 = \$2,917 \text{ prorated subsidized annual loan limit}$$

(As noted earlier in this chapter, 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 fraction method shown above and the decimal method may produce slightly different results.)

The total prorated loan limit is \$4,583, not more than \$2,917 of which may be subsidized. Because the student received more than the prorated maximums, the school reduces each disbursement of the student's Direct Subsidized Loan and Direct Unsubsidized Loan as shown below and returns the excess loan funds to the Department. Note that the school - not the student - is responsible for returning the excess Direct Loan funds in this situation.

Reduced Direct Subsidized Loan Amount \$2,917 (\$583 reduction from original amount)	Direct Subsidized Loan Adjusted First Disbursement \$1,458 (original disbursement reduced by \$292)	Direct Subsidized Loan Adjusted Second Disbursement \$1,459 (original disbursement reduced by \$291)	Direct Subsidized Loan Funds Returned to Department \$583
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disbursed)			
Reduced Direct Unsubsidized Loan Amount	Direct Unsubsidized Loan Adjusted First Disbursement	Direct Unsubsidized Loan Adjusted Second Disbursement	Direct Unsubsidized Loan Funds Returned to Department
\$1,666 (\$334 reduction from original amount disbursed)	\$833 (original disbursement reduced by \$167)	\$833 (original disbursement reduced by \$167)	\$334

Volume 8, Chapter 5, Example 9: Re-Proration of a Previously Prorated Loan Limit for a Student Who Graduates Early From a Clock-Hour Program

A dependent student is enrolled in the remaining 500 clock hours of a 1500 clock-hour program that has a defined academic year of 900 clock hours and 26 weeks of instructional time. Because the student is enrolled in a final period of study shorter than an academic year, the school prorates the annual loan limit based on the 500 hours that it expects the student to complete:

$$(\$6,500 \times 500) \div 900 = \$3,611 \text{ prorated combined subsidized and unsubsidized annual loan limit}$$

$$(\$4,500 \times 500) \div 900 = \$2,500 \text{ prorated subsidized annual loan limit}$$

The total prorated loan limit for the remaining period of study is \$3,611, not more than \$2,500 of which may be subsidized. The student qualifies to receive the maximum annual combined prorated loan limit in the form of a \$2,500 Direct Subsidized Loan and a \$1,111 Direct Unsubsidized Loan. Each loan is paid in two equal disbursements, as shown below.

Original Direct Subsidized Loan Amount	Direct Subsidized Loan First Disbursement	Direct Subsidized Loan Second Disbursement
\$2,500	\$1,250	\$1,250
Original Direct Unsubsidized Loan Amount	Direct Unsubsidized Loan First Disbursement	Direct Unsubsidized Loan Second Disbursement
\$1,111	\$556	\$555

The student successfully meets the requirements for graduation from the program after completing only 400 clock hours. This means that the school must re-prorate the annual loan limit based on the 400 hours that the student actually completed:

$$(\$6,500 \times 400) \div 900 = \$2,889 \text{ re-prorated combined subsidized and unsubsidized annual loan limit}$$

$$(\$4,500 \times 400) \div 900 = \$2,000 \text{ re-prorated subsidized annual loan limit}$$

The total re-prorated loan limit for the remaining period of study is \$2,889, not more than \$2,000 of which may be subsidized. Since the student originally received Direct Loan amounts in excess of the re-prorated loan limit, the school must adjust the original disbursements and return the difference to the Department, as shown below. The

school - not the student - is responsible for returning the excess funds.

Reduced Direct Subsidized Loan Amount \$2,000 (\$500 reduction from original amount disbursed)	Direct Subsidized Loan Adjusted First Disbursement \$1,000 (original disbursement reduced by \$250)	Direct Subsidized Loan Adjusted Second Disbursement \$1,000 (original disbursement reduced by \$250)	Direct Subsidized Loan Funds Returned to Department \$500
Reduced Direct Unsubsidized Loan Amount \$889 (\$222 reduction from original amount disbursed)	Direct Unsubsidized Loan Adjusted First Disbursement \$445 (original disbursement reduced by \$111)	Direct Unsubsidized Loan Adjusted Second Disbursement \$444 (original disbursement reduced by \$111)	Direct Unsubsidized Loan Funds Returned to Department \$222