

## FEDERAL PERKINS LOAN PROGRAM

### (I) REVIEW PROCESS

Under the new total and permanent disability discharge procedures, a Perkins school lender (the school) is expected to conduct rigorous reviews of disability discharge requests. During this review period, the school must cease collection activities against the borrower, and, if the school denies the discharge claim, consider the loan to have been in forbearance (or deferment, if applicable) during the review period.

#### A. School Lender Notification

The school must provide information to eligible applicants on the process for granting the total and permanent disability discharge. If the discharge application is incomplete or if there is a need for additional supporting medical documentation, it must also notify the borrower and request this information. After determining whether or not a borrower meets the criteria for a total and permanent disability discharge, the school must notify the borrower of its decision.

1. If the school denies the borrower's request for a discharge it must inform the borrower of the denial and the reason the request has been denied.
2. If the school makes a preliminary determination that the borrower meets the criteria for a disability discharge, it should notify the borrower that the loan will be assigned to the Department for a review of the discharge request and an initial determination of eligibility for the discharge. If the Department determines that the borrower is not eligible, the Department will notify the borrower of the denial and explain the reason for denying the application. The Department will then begin collection activity on the loan. If the Department makes an initial determination that the borrower meets the criteria for a disability discharge, the Department will place the loan in a conditional discharge status, for three years from the date the borrower became totally and permanently disabled, as certified by a physician. During the conditional discharge period, interest will not accrue on the loan and the borrower is not obligated to make payments on the loan. If, throughout the conditional discharge period, the borrower remains eligible for the discharge (i.e., he or she does not take out any additional Title IV loans and does not have annual earnings from work in excess of the poverty level for a family of two) the Department will grant the borrower a final discharge.

The school's notification to the borrower should explain these procedures for reviewing disability discharge requests, and inform the borrower that the Department will be requesting information on the borrower's income from employment during the conditional discharge period. The school should also tell the borrower that no further payments should be made on the loan unless the borrower is otherwise instructed by the Department [34 C.F.R. §674.61(b)(3) – (b)(9)].

### (II) ASSIGNMENT PROCESS

After making a preliminary determination that a borrower meets the criteria for a disability discharge, the school must assign the loan to the Department [34 C.F.R §674.61(b)(3)]. When assigning loans for purposes of a total and permanent disability discharge, the school must use ED Form 553, the same form that is used to assign defaulted loans. This form is available on IFAP as an attachment to Dear Colleague Letter CB-02-05.

## **A. Use of ED Form 553**

Detailed instructions for completing ED Form 553 are provided in Dear Colleague Letter CB-02-05. Institutions should follow these instructions for disability discharge assignments, with the following modifications:

1. Leave Item 41 blank (Date of default), unless the loan is in default.
2. Leave Item 44 blank (Date loan was accelerated or became fully mature), unless the loan has been accelerated or has become fully mature.
3. Next to Item 54 ("Other") insert the words "Disability Discharge" to indicate that the loan is being assigned to the Department for determination of eligibility for a total and permanent disability discharge.
4. Completion of Section E ("Cancellation and Deferment Information") is optional.

## **B. Attachments**

A school is not required to submit the same supporting documentation for a total and permanent disability discharge assignment as it is required to submit for a defaulted loan assignment. However, the school is required to retain any loan related documentation that it does not submit until the Department approves a final discharge on the loan or the loan has been paid in full. The following documents must be submitted with the completed ED Form 553:

1. A completed Loan Discharge Application: Total and Permanent Disability, signed by both the borrower (or the borrower's representative) and the borrower's physician.
2. Any supporting medical documentation provided by the borrower or obtained by the school during the review process.
3. A listing of any payments (amounts and payment date) received on or after the date the borrower became totally and permanently disabled, as certified by a physician in Section 3 of the total and permanent disability discharge form.
4. The original promissory note or indemnification agreement if the promissory note is not available.
5. Judgment documentation (if applicable).
6. Bankruptcy documentation (if applicable).

## **C. Mailing Address**

Total and permanent disability assignment submissions should be sent to the Department at the following address:

Conditional Total and Permanent Disability Assignments  
U.S. Department of Education  
c/o AFSA Data Corporation  
501 Bleecker Street  
Utica, New York 13501

## **D. NSLDS Reporting**

Before assigning the loan to the Department, the school must update the NSLDS record for the loan, using Loan Status Code “AE”, to reflect the assignment. In reporting the assignment to NSLDS, the school must report to NSLDS the same date for the “Date of Loan Status” that the school reports as the “Certification Date” on ED Form 553.

As with the current assignment process, when a school assigns a loan to the Department, the school reports to NSLDS a code number for the entity that will receive the loan. These loans will be assigned to a newly established Disability Discharge Operating Unit. An entity code for this unit has not yet been designated. We will advise schools of the new entity code as soon as it is available.

After the loan has been assigned, the Department will be responsible for further NSLDS reporting on the loan (see Attachment 3, “Department of Education”).

## **E. Credit Bureau Reporting**

After assignment to the Department, the school should use the Standard Metro formats for reporting these loans to credit bureau organizations using an “88” code to denote that a claim has been filed with the Department. Upon notification by the Department that the assignment has been accepted, the school should delete the loan record using the “DA” reporting code.

After the loan has been assigned, the Department will be responsible for further credit bureau reporting on the loan (see Attachment 3, Section (III) A.).

## **(III) TREATMENT OF PAYMENTS**

### **A. Payments Received After the Loan Has Been Assigned**

If a school receives payments from or on behalf of the borrower after the loan has been assigned to the Department, the school must forward that payment to the Department at the address provided in Section (II) C of this Attachment. The payment should be accompanied by a listing with the borrower’s name, social security number, source of payment if known (i.e. borrower, parent, etc), payment amount, payment date and date of assignment to the Department for total and permanent disability discharge purposes. The Department will credit the payment to the borrower’s account.

At the time the school forwards the payment to the Department, the school must notify the borrower or other party who sent the payment that there is no obligation to make further payments while the loan is held by the Department in a conditional discharge status, unless the Department directs the borrower otherwise [34 C.F.R. §674. 61(b)(10)].

### **B. Payments Received On or after the Date of Disability and Before the Loan Has Been Assigned**

After the Department approves a final discharge on a loan, the Department will notify the school of the discharge and require the school to return to the borrower any payments on the loan the school received on or after the date the borrower became totally and permanently disabled but before the loan was assigned [34 C.F.R. §674. 61(b)(1)]. The listing of these payments is submitted by the school at the time the loan is assigned, and is described in Section (II) B.3 of this Attachment. Returning payments to the borrower

will result in a decrease in the institution's Federal Perkins Loan Fund. The Department will provide instructions to schools on how to report the decrease on the FISAP.