

U.S. DEPARTMENT OF EDUCATION

(I) INITIAL REVIEW

The Department's Disability Discharge Operating Unit will conduct an initial review of all discharge requests that have been assigned by a Perkins school lender or a guaranty agency or transferred from the Direct Loan Servicer or FSA Collections.

The Operating Unit will review the discharge request packages for completeness. Any incomplete packages will be returned to the holder of the loan for resubmission. Any questionable preliminary determinations (e.g., a borrower that clearly does not meet the definition) may also be returned to the holder. The Department will monitor determinations made by loan holders to ensure that holders and guaranty agencies are properly reviewing the applications they receive.

In many cases a borrower will have submitted disability discharge requests to more than one loan holder. The Operating Unit will, to the extent possible, conduct a consolidated review of all discharge requests for a borrower to determine the borrower's eligibility for discharge.

If necessary, the Operating Unit will contact the physician or prior holder for any additional information it believes is necessary to make an initial determination of the borrower's eligibility for a discharge. The initial and final review of an application will be combined if, at the time the loan is assigned or transferred, three years has elapsed since the date that the borrower became totally and permanently disabled, as certified by the physician.

A. Borrower Notification of Eligibility for Conditional Discharge

The Operating Unit will send a letter to the borrower indicating that the loan has been assigned to the U.S. Department of Education. Unless the Department already was the holder of the loan, a copy of the letter will also be sent to the prior loan holder. The letter will provide the borrower and the prior holder:

1. A notification that the Department has determined that the borrower is eligible for a conditional discharge.
2. A description of the conditional discharge period and the eligibility requirements for receiving a final discharge.
3. A request for information on the borrower's earnings from employment during the conditional discharge period.
4. Instructions to the borrower to inform the Department of any change in address or phone number or annual earnings from employment and the need to provide the Department with additional information or documentation that may be necessary to support his or her eligibility for the final discharge.
5. A notice that failure to provide income information as requested will disqualify the borrower for a final discharge and will move the loan into full repayment status.
6. A contact number should the borrower have questions.

[34 C.F.R. §§674.61(b)(6), 682.402(c)(13), 685.213(a)(1)(i)]

B. Borrower Notification of Ineligibility for Conditional Discharge

The Operating Unit will send a letter to the borrower indicating that the loan has been assigned to the U.S. Department of Education. Unless the Department already was the holder of the loan, the Department will send a copy of the letter to the prior loan holder. The letter will include a notice to the borrower that, after further review, the Department has determined that the borrower is ineligible for the disability discharge and the reason for the ineligibility. The letter will inform the borrower that the Department will continue to hold the loan and that the borrower's loan will be returned to repayment status or for collection. The borrower will also be notified how to resume payments on the loan. The borrower will be given a phone number to call and speak with a representative if the borrower has questions regarding the disability discharge request [34 C.F.R. §§674.61(b)(5), 682.402(c)(12)].

(II) CONDITIONAL DISCHARGE PERIOD

When a loan is placed into a conditional discharge status, it will be entered into a tracking system with a date of disability identified for monitoring during the conditional discharge period.

A. Loan Monitoring

The Department will:

1. Request income information annually from the borrower during the conditional period. If a borrower fails to provide the requested information, the borrower will lose eligibility for the discharge.
2. Conduct ongoing monitoring of NSLDS for receipt of new Title IV loans by the borrower.
3. Review the borrower's income against the poverty level on an annual basis.

The poverty level guidelines are updated annually by the U.S. Department of Health and Human Services (HHS). The poverty level guidelines are posted on the HHS web site at the following address:

<http://aspe.hhs.gov/poverty/poverty.htm>

B. Borrower Notification of Eligibility for Final Discharge

Following the close of the borrower's conditional discharge period, the Operating Unit will notify the borrower that, based on its review of the borrower's loan history and receipt of income information for the conditional discharge period, the borrower is eligible for a final disability discharge. The Operating Unit will also send a copy of the letter to the prior loan holder. The letter will include information on the future refund of payments, if any, that were made on or after the date the borrower became totally and permanently disabled. The borrower will be given a phone number to call and speak with a representative if the borrower has questions regarding the disability discharge request [34 C.F.R. §§674.61(b)(8), 682.402(c)(15), 685.213(a)(2)].

C. Borrower Notification of Ineligibility for Final Discharge

The Operating Unit will notify the borrower if it determines that the borrower has become ineligible for a total and permanent disability discharge during the conditional discharge period. The notice will explain the reason for the borrower's ineligibility and advise the borrower that the loan will be returned to repayment or collection status. The borrower will also be notified how to resume payments on the loan. The borrower will be given a phone number to call and speak with a representative if the borrower has questions regarding the disability discharge request [34 C.F.R. §§674.61(b)(9), 682.402(c)(16), 685.213(a)(3)].

(III) REPORTING

A. Credit Bureau Reporting

Upon assignment of the loan to the Department, the Operating Unit will report the loan to national credit bureau organizations using Standard Metro Formats to reflect the change in ownership. For a defaulted loan last reported with an "88" code, the Operating Unit will report a code "93". For non-defaulted loans, the Operating Unit will report a code "11".

After its initial report to credit bureau organizations to reflect the change in ownership of the loan and the status of the loan upon assignment, the Operating Unit will not make further reports on the loan until such time as the loan is finally discharged or the borrower is disqualified and is returned to repayment or collection status.

B. National Student Loan Data System (NSLDS) Reporting

Upon assignment of a loan to the Department, the guaranty agency will report the loan to NSLDS by using a "DI" or "DS" code with a \$0 balance, with a claim payment date and a date of loan status on or after July 1, 2002. The Operating Unit, after its initial determination of eligibility, will reenter in the NSLDS system the outstanding balance last reported on the loan or otherwise prevent deletion of the outstanding balance on the loan in the NSLDS system.

Upon assignment from a Perkins school lender of a Perkins loan that was reported by the school to NSLDS with an "AE" code, the Operating Unit will report the loan to NSLDS, after its initial determination of eligibility, using the "DI" or "DS" code with an outstanding balance.

A loan with a "DI" or "DS" code and a positive outstanding principal balance and a date of loan status on or after July 1, 2002 will denote a loan in the conditional discharge period. The loan will remain in the conditional discharge status until:

1. A final discharge is granted, which is reflected by setting the outstanding balance on the loan to zero; or
2. The borrower loses eligibility for a final discharge and the loan is placed back into repayment, which is reflected by reporting the loan with its previous NSLDS Loan Status Code.