

National Association of Student
Financial Aid Administrators Presents...

Institutional Title IV Loan Policy Issues

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NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Overview of Issues

- Administration's FY 06 Budget Request
- All Title IV Loans
 - Eligibility after Total & Permanent Disability Discharge
 - Eligibility after Bankruptcy Filing
 - HEROES Act and Notice



Overview of Issues

- FFEL and Direct Loan Program
 - “New” Teacher Loan Forgiveness Provisions
 - Loan Eligibility and Certification Issues
 - Additional Unsubsidized Stafford for Dependent Students
 - Professional Judgment in Reducing or Refusing to Certify
 - Certifying PLUS applications from eligible lenders
 - Late Disbursement Issues



Overview of issues

- Perkins Loan Program
 - PART Analysis
 - Funding
 - Follow-up Q&As on MPN Implementation
 - Perkins Loan Consolidation Issues



Administration FY 06 Budget Request

- Direct taxpayer resources to students with the most need-Increase and expand Pell
- Provide significant program improvements
- Save taxpayer's money by eliminating funding for ineffective programs



Administration's FY 06 Budget Request

- **Federal Perkins Loan Program**
 - End new Perkins lending
 - Offset by increased FFEL/DL loan limits
 - Recall of Federal Portion of Revolving Funds
 - Essential to increasing Pell Grants
 - Develop Plan to Recall Outstanding Loans
 - Assignment of outstanding loans to ED



Administration's FY 06 Budget Request

- FFEL and Direct Loan Programs
 - Increase undergraduate annual loan limits
 - 1st year subsidized - \$2625 to \$3500
 - 2nd year subsidized - \$3500 to \$4500
 - Beyond 2nd year – subsidized remains \$5500
 - Maintain \$4000/\$5000 unsubsidized
 - Increase undergraduate aggregate limits
 - Undergraduate subsidized - \$23,000 to \$25,000
 - Undergraduate total - \$46,000 to \$48,000



Administration's FY 06 Budget Request

- FFEL and Direct Loan Programs (cont.)
 - Maintain graduate subsidized limits at \$8500 annually
 - Increase graduate unsubsidized limits from \$10,000 to \$12,000
 - Increase graduate total annual loan limits from \$18,500 to \$20,500
 - Increase graduate aggregate limits from \$138,500 to \$146,500



Administration's FY 06 Budget Request

- FFEL and Direct Loan Programs (cont.)
 - Reestablish low-default waivers
 - Applies to schools with a cohort default rate under 10% for 3 years
 - Waivers apply to:
 - 30-day delay for first-time, first-year borrowers
 - Multiple disbursements for single term loans



Administration's FY 06 Budget Request

- FFEL and Direct Loan Programs (cont.)
 - Extend current variable interest rates for non-consolidation loans
 - Extend new teacher loan forgiveness provisions permanently
 - Loans for short-term training programs
 - Standardize repayment plans



Administration's FY 06 Budget Request

- FFEL and DL Consolidation Loans
 - Move from fixed interest rate (weighted average) to variable rate
 - Provide reconsolidation with 1% origination fee
 - Repeal single holder rule



Administration's FY 06 Budget Proposal

- Program Improvements:
 - Make active-duty military personnel independent for need analysis
 - Eliminate 50% rules for distance education to expand options for pursuing postsecondary education
 - Limit loss of eligibility due to drug offenses
 - Revise allocation formula for campus-based programs



Title IV Loan Program Issues

- Eligibility after Total and Permanent Disability Discharge (TPD)
 - Eligibility requirements vary depending upon date of TPD discharge as of 11/1/2000:
 - Before July 1, 2001
 - On or after July 1, 2001 and before July 1, 2002
 - On or after July 1, 2002
 - Refer to ISIR Codes and Comments



Title IV Loan Program Issues

- Eligibility after TPD Discharge (cont.)
 - Discharge before July 1, 2001
 - Certification from physician that borrower can engage in substantial gainful activity (i.e., no longer TPD) (NOTE: Need one per school)
 - Borrower statement acknowledging no discharge of new loan for pre-existing conditions unless substantial deterioration (NOTE: Need for each loan)



Title IV Loan Program Issues

- Eligibility after TPD Discharge (cont.)
 - Discharge on or after July 1, 2001 and before July 1, 2002 with new loan request within 3 years of TPD date:
 - Physician Certification
 - Borrower Acknowledgement Statement
 - Reaffirmation of Discharged Loan
 - After 3 years from TPD date only certification and borrower acknowledgement required



Title IV Loan Program Issues

- Eligibility after TPD Discharge (cont.)
 - Reaffirmation
 - If ISIR Discharge Date is within 3 years of new loan request, contact holder to identify 3 years from TPD date
 - If reaffirmed, requires new prom note or signed repayment schedule
 - Do not certify/originate before holder confirms
 - If defaulted prior to discharge, reaffirmed loan retains default status and satisfactory repayment arrangements are required



Title IV Loan Program Issues

- Eligibility after TPD Discharge (cont.)
 - Discharge on or after July 1, 2002
 - If final discharge granted-same as before 7/1/2001
 - If “conditional” discharge—
 - Physician cert and borrower acknowledgement of new loan
 - Borrower acknowledgement that neither new loan nor conditionally discharged loan are dischargeable now or in the future based on pre-existing condition unless substantial deterioration
 - Collection resumes on conditional loan/prior status applies

Title IV Loan Program Issues

- Eligibility after Bankruptcy Filing
 - Bankruptcy Reform Act of 1994 – (Pub. L. 103-394)
 - No denial of grant or loan to a person who has filed or received a discharge in bankruptcy
 - 1998 Amendments to the HEA
 - Eliminates bankruptcy discharge to borrowers in repayment for seven years; borrowers must prove undue hardship



Title IV Loan Program Issues

- Eligibility After Bankruptcy Filing (cont.)
- Direct Loans – DLB04-14 and DLB 04-17
 - **Applies to ALL Title IV Loans**
 - **New MPN not required**
 - **No longer rejecting disbursements after filing**
 - **Loans are disbursements are clearly identifiable by date before and after**
 - **Filing borrowers remain in default w/o SRA**
 - **Voluntary SRA does not violate “stay of collections”**



Title IV Loan Program Issues

- HEROES Federal Register Notice
 - HEROES Bill (P.L. 108-76, August 18, 2003) authorizes ED to publish FR notice of waivers/mods to HEA and program regs for applicants and recipients of Title IV aid who are “affected individuals”
 - FR Notice published December 12, 2003
 - <http://ifap.ed.gov/fregisters/fr12122003.html>

Title IV Loan Program Issues

- HEROES Federal Register Notice (cont.)
 - Excludes all military service from Title IV borrower's initial grace period
 - Requires loan holders keep affected individuals in an "in-school" status or "in-school" deferment
 - Waives collection on defaulted loans while borrower is an affected individual
 - Waives documentation/3-year limit for a military deferment



Title IV Loan Program Issues

- HEROES Federal Register Notice (cont.)
 - Military service does not interrupt service required for loan cancellation
 - Military service does not interrupt required consecutive payments to rehabilitate, make satisfactory repayments arrangements to regain eligibility or consolidate
 - Waives supporting documentation for initial forbearance in FFEL and DL



Title IV Loan Program Issues

- HEROES Federal Register Notice (cont.)
 - Waives written request, written agreement and supporting documentation for initial forbearance for Perkins borrowers
 - Requires documentation beyond initial forbearance period
 - Periods of forbearance for Perkins borrowers do not count against 3 year limit



Federal Family Education Loan (FFEL) and Federal Direct Loan Program Issues

- “New” Teacher Loan Forgiveness
- Taxpayer—Teacher Protections Act of 2004 authorizes loan forgiveness up to \$5,000 if:
 - Borrower teaches five years in an elementary or secondary school with 30% or more Title I enrollment (includes all BIA schools)
 - Borrower is a “highly qualified” teacher as defined in the No Child Left Behind Act



FFEL and Direct Loan Program Issues

- “New” Teacher Loan Forgiveness (cont.)
 - Loan forgiveness of up to \$17,500 authorized if teacher:
 - **Meets above requirements AND**
 - **Teaches special education in elementary or secondary school**
 - OR**
 - **Teaches math or science in secondary school**



FFEL and Direct Loan Program Issues

- “New” Teacher Loan Forgiveness (cont.)
- Teachers who began qualifying service before new law enacted:
 - Do not have to meet new requirements for \$5,000 but
 - Must meet new requirements for \$17,500
- DCL GEN-04-14 summarizes provisions
- DCL GEN-05-02 – Applications



FFEL and Direct Loan Program Issues

- Loan Eligibility & Certification Issues
- Additional Unsub for Dependent Students if:
 - Parent is ineligible for PLUS due to adverse credit
 - Parent likely precluded from borrowing PLUS under documented exceptional circumstances
- Examine Use of Endorser for PLUS eligibility



FFEL and Direct Loan Program Issues

- Additional Unsub for Dependent Students
- Guidelines for certifying/originating include:
 - Unwillingness to borrower PLUS does NOT qualify the dependent
 - FAO's belief that parent should not borrower PLUS does NOT qualify the dependent.
 - Only one parent must be denied. If both apply and one is eligible, dependent is ineligible



FFEL and Direct Loan Program Issues

- Guidelines for certifying/originating include:
 - Adverse credit denial in one year not applicable to subsequent years
 - PLUS or dependent eligibility can happen any time in academic year
- Documented “Exceptional” Circumstances
- Regulatory Examples not exhaustive list



FFEL and Direct Loan Program Issues

- Additional Unsub for Dependent Students
- Parent with limited income – low earnings, public assistance, or disability benefits
 - FFEL Program – Documented evidence lender has/will deny PLUS due to income-to-debt, ability to repay or other credit standards
 - DL Program – School documents inability to pay due to income-to-debt ratio, existing debt burden or limited income



FFEL and Direct Loan Program Issues

- Professional Judgment: Declining/reducing Loans
 - Case-by-case
 - Documented
 - Written explanation to student of reason
 - No discrimination—race, sex, color, income, religion, national origin, age, handicapped status, or choice of lender or GA



FFEL and Direct Loan Program Issues

- Professional Judgment: Declining/Reducing Loans
 - No policy of covering school charges only
 - No “mandatory” use of preferred lender
 - No use of required credit checks
 - No loan without Pell eligibility determination and application (if applicable); No unsub loan without subsidized eligibility & app (\$tolerance)



FFEL and Direct Loan Program Issues

- Late Disbursements Beyond 120 Days
 - Dear Colleague GEN-05-07, April 2005
 - http://ifap.ed.gov/dpcletters/doc0672_bodyoftext.htm
 - Requests must be made directly by a school or its third party servicer
 - School must fax request on school letterhead:
 - **(877) 623-5082 – COD School Relations Center**
 - **FAX COVER MUST READ: Attn: FSA Support Team, “Late” Late Disbursement Approval Request**



FFEL and Direct Loan Program Issues

- **Late Disbursements Beyond 120 Days**
 - **FFEL/DL Requests Must Include:**
 - **Loan type**
 - **Certification/Origination Date**
 - **Loan period beginning/end dates**
 - **Lenders Name (FFEL) – Award ID (DL)**
 - **Did Student Complete Loan Period**
 - **If not, when did enrollment cease**
 - **Late first disbursement or subsequent**



FFEL and Direct Loan Program Issues

- Late Disbursements Beyond 120 Days
 - Submit a separate request for each student or parent
 - Submit a separate request for each Title IV Program, except sub & unsub loans for the same student/same loan period
 - Expect email approval or denial within 10 days



Federal Perkins Loan Program

- OMB's Perkins Loan Program Program Assessment Rating (PART)
 - Government Performance & Results Act – all Federal programs to have measurable goals
 - President's Management Council developed 5-point plan to improve efficiency & effectiveness of Federal programs
 - OMB developed PART assessment to assess effectiveness of Federal Programs



Federal Perkins Loan Program

- OMB's Perkins PART Analysis (cont.)
 - Federal Perkins Loan Program rated ineffective
 - Program deemed redundant and duplicative due to existence of the FFEL and Direct Loan Programs
 - Funding request for new FCC was eliminated from the President's FY05 budget request
 - Elimination of the Program proposed as part of the President FY06 budget request



Federal Perkins Loan Program

- Perkins Loan Budget/Appropriations
 - President's FY05 Budget Request (AY 05-06)
 - New FCC: 0 Cancellation \$66,665,000
 - Congressional FY05 Appropriation (AY 05-06)
 - New FCC: 0 Cancellation:
 - President's FY06 Budget Request (AY 06-07)
 - No New FCC/Cancellation; Eliminate Program
 - Congressional FY 06 Appropriation (AY 06-07)
 - In Progress



Federal Perkins Loan Program

- Follow-up Q&As on MPN Implementation
 - Schools may direct borrowers to secure website for required notices and disclosures (CFR 668.165(a) and 674.16(a))
 - Loans included in the disclosure of “total and cumulative balance owed” to schools
 - Disbursements cancelled in first 12 months
 - New MPN after borrower’s bankruptcy filing



Federal Perkins Loan Program

- Perkins Loan Consolidation Issues
 - Consolidation and revolving fund cash flow
 - Excess cash strategies
 - Converting Perkins Loans to early repayment for FFEL in-school consolidation
 - Consolidation in “in-school” or grace vs. repayment and calculation of cohort default
 - Borrower information/authorizations – LVCs



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