



IMPORTANT UPDATE

TO: Financial Aid Officers
Student Loan Officers

FROM: Jessie Cooper, Compliance Officer
Georgia Student Finance Commission

DATE: May 8, 2007

SUBJECT: COMMON MANUAL, *Unified Student Loan Policy Bulletin 99*

The attached policy change summaries have been prepared by the nation's guarantors in order to clarify, revise or correct existing policies contained in the Common Manual. The effective date associated with each provision is noted at the end of each section.

The following summaries are listed in the order that the policy changes were passed:

- Reference # 950 – School as Lender Changes
- Reference # 951 – Eligible Lender Trustee Relationships
- Reference # 952 – Telecommunications Program of Study
- Reference # 953 – Defining an Academic Year
- Reference # 954 – Stafford Annual Loan Limits for Transfer Students
- Reference # 955 – Stafford Annual Loan Limits
- Reference # 956 – Total and Permanent Disability (TPD) Loan Discharges for Comakers and Endorsers
- Reference # 957 – Discharging Underlying Loans of a Consolidation Loan
- Reference # 958 – Recapture of Excess Interest
- Reference # 959 – Special Allowance
- Reference # 960 – Excess Interest Calculation
- Reference # 962 – Partial Discharge of a Consolidation Loan

If you have any questions about the attached bulletin, please contact Jessie Cooper by phone at 770-724-9139 or e-mail at jessiec@gsfc.org.

Attachment

The nation's guarantors provide the following summaries to inform schools, lenders, and servicers of the latest *Common Manual* policy changes. These changes will appear in the manual's next annual update. These changes will also be incorporated into the *Integrated Common Manual*. The *Integrated Common Manual* is available on several guarantor websites, and it is also available on *Common Manual's* website at www.commonmanual.org. Please carefully note the effective date of each policy change.

School as Lender Changes

The *Common Manual* has been revised to incorporate regulatory changes contained in, and clarifications from the Preamble to the *Federal Register* dated November 1, 2006, regarding the eligibility requirements for school as lender. Revised policy clarifies that:

- The school lender must make loans only to students enrolled at that school.
- The net proceeds used for need-based grants exclude the amount necessary for reimbursement of reasonable and direct administrative expenses and that the definition of administrative expenses does not include the costs associated with securing financing, offering reduced origination fees, interest rates, or federal default fees to borrowers.
- The annual lender compliance audit of the school's FFELP portfolio is required for each fiscal year beginning on or after July 1, 2006.

In addition, revised policy adds a paragraph to subsection 3.8.A, Annual Compliance Audits, stating that for each fiscal year beginning on or after July 1, 2006, a school lender must submit an annual compliance audit that includes its FFELP lending activities regardless of the size of the school's loan portfolio or annual loan volume that includes information on required annual compliance audits for Schools as Lenders.

Affected Sections: **3.2 Schools Acting as Lenders**
 3.8.A Annual Compliance Audits

Effective Date: In order for a school to participate as a lender, the school must have met eligibility criteria in effect on February 7, 2006, and must have made a FFELP loan(s) on or before April 1, 2006.

On or after July 1, 2006, existing school lenders must meet specific requirements.

Basis: Preamble to the *Federal Register* dated November 1, 2006, pages 64390-64391 and 64399.

Policy Information: 950/Batch 141

Guarantor Comments: None.

Eligible Lender Trustee Relationships

The *Common Manual* has been revised to add a new subheading and text in subsection 3.2 that addresses new statutory mandates regarding new and existing eligible lender trustee (ELT) relationships.

- Effective September 30, 2006, an eligible lender may not enter into a new relationship to make or hold a FFELP loan as a trustee for a school or for an organization affiliated with a school.
- If an ELT relationship was established prior to September 30, 2006, it may continue, and be renewed, as long as the relationship remains in effect after September 30, 2006 and the ELT held at least one loan on behalf of the school as of that date.
- Effective January 1, 2007, a school involved in an ELT relationship must meet the eligibility requirements applicable to a school-as-lender, with the exception of the requirement to award servicing contracts on a competitive basis.
- A school-affiliated organization involved in an ELT relationship must meet the same eligibility requirements as a school involved in an ELT relationship, except that the cohort default rate

requirement, the prohibition against being a home school, and the requirement to employ at least one person whose responsibilities are limited to the administration of its financial aid programs do not apply to the school-affiliated organization.

- A lender involved in an ELT relationship must meet the same eligibility requirements as a school involved in an ELT relationship, except that the cohort default rate requirement, the prohibition against being a home school, the requirement to employ at least one person whose responsibilities are limited to the administration of its financial aid programs, and the requirement to use loan proceeds for need-based grants do not apply to the lender.

Affected Sections:
Effective Date:

3.2 Schools Acting as Lenders

Requirements regarding an eligible lender making or holding a FFELP loan as a trustee for a school or for an organization affiliated with a school are effective September 30, 2006.

For loans disbursed on or after January 1, 2007, the lender, school, and school-affiliated organization involved in an existing Eligible Lender Trustee relationship must meet applicable school-as-lender requirements.

Basis:
Policy Information:
Guarantor Comments:

Dear Colleague Letter GEN-06-21/FP-06-17.

951/Batch 141

None.

Telecommunications Program of Study

The *Common Manual* has been revised to provide information regarding an exception published by the Department to the accreditation requirements for certain distance education programs published by the Department.

Revised policy also clarifies that telecommunications technologies used to supplement and support instruction in a foreign school program must be used in a classroom where the students and instructor are physically present in order for students in the program to be eligible for Title IV aid.

In addition, revised policy modifies the definition of "telecommunications course" to clarify that the telecommunications technologies must be used to support regular and substantive interaction between the students and the instructor, by either simultaneous communications or by communications that occur at different times.

Affected Sections:

**5.12.A Telecommunications Program of Study
appendix G**

Effective Date:

Loans disbursed on or after September 8, 2006.

Basis:

Interim Final Rules published in the *Federal Register* on August 9, 2006, page 45667-45668, 45689, 45692, 45693, and 45696; Final Rules published in the *Federal Register* on November 1, 2006, pages 64378 and 64379, *Dear Colleague Letter* GEN-06-17.

Policy Information:

952/Batch 141

Guarantor Comments:

None.

Defining an Academic Year

The *Common Manual* has been revised to include a distinction between standard term-based credit-hour programs and nonstandard term-based credit-hour programs in determining the academic year and the frequency of Stafford annual loan limits. This distinction first appeared in the 2005-2006 *Federal Student Aid Handbook*, and clarifies that a school may use the scheduled academic year to determine the frequency of annual loan limits only for standard term-based credit-hour programs. For nonstandard term-based and non-term-based credit-hour programs, as well as clock-hour programs, the school must use the borrower-based academic year to determine the frequency of annual loan limits.

Affected Sections:

**6.1 Defining an Academic Year
figure 6-2 Frequency of Stafford Annual Loan Limits
6.11.A Stafford Annual Loan Limits**

Effective Date:

Publication date of the 2005-2006 *Federal Student Aid Handbook*, unless implemented earlier by the school.

Basis: 2005-2006 *Federal Student Aid Handbook*, Volume 3, Chapter 4, pages 3-66 through 3-75.
Policy Information: 953/Batch 141
Guarantor Comments: None.

Stafford Annual Loan Limits for Transfer Students

The *Common Manual* has been revised to clarify that the Stafford loan eligibility for a transfer student is the annual loan limit applicable to the student's current grade level *minus* the loan amount the student has already received for the final academic year of the prior program. For a student who transfers to a standard term-based credit-hour program, the student's Stafford loan eligibility for a subsequent term that begins within the initial academic year of the new program, but after the end of the final academic year of the prior program, is the annual loan limit applicable to the student's current grade level *minus* the outstanding loan amount the student has already received for that academic year in the new program.

Affected Sections: 6.1 Defining an Academic Year
6.11.A Stafford Annual Loan Limits
Effective Date: Publication date of the 2005-2006 *Federal Student Aid Handbook*, unless implemented earlier by the school.
Basis: *Dear Guaranty Agency Director Letter* dated March 16, 1994; NCHelp Q&A Frequency of Annual Loan Limits dated June 15, 1994; 2005-2006 *Federal Student Aid Handbook*, Volume 3, Chapter 4, pages 3-72 through 3-77.
Policy Information: 954/Batch 141
Guarantor Comments: None.

Stafford Annual Loan Limits

The *Common Manual* has been revised to reflect the new Stafford annual loan limits effective for loans first disbursed on or after July 1, 2007. Changes to the Stafford annual loan limits include:

- First-year undergraduate base Stafford eligibility has been increased from \$2,625 to \$3,500.*
- Second-year undergraduate base Stafford eligibility has been increased from \$3,500 to \$4,500.
- Additional unsubsidized Stafford eligibility for a student who has a bachelor's degree and is enrolled or accepted for enrollment in coursework necessary for a professional credential or certification from a state that is required for employment as a teacher in an elementary or secondary school in that state has been increased from \$5,000 to \$7,000.
- Additional unsubsidized Stafford eligibility for a student who is taking preparatory coursework that the school has determined and documented to be necessary for the student to enroll in a graduate or professional program has been increased from \$5,000 to \$7,000.
- Additional unsubsidized Stafford eligibility for a graduate or professional student has been increased from \$10,000 to \$12,000.

*The base Stafford loan eligibility of \$2,625 for preparatory coursework for an undergraduate program remains unchanged.

Affected Sections: 6.1 Defining an Academic Year
6.11.A Stafford Annual Loan Limits
Effective Date: Stafford loans first disbursed on or after July 1, 2007.
Basis: Higher Education Act of 1965, Sections 425(a)(1)(A), 428(b)(1)(A), and 428H(d), as amended by the Higher Education Reconciliation Act (HERA) of 2005; §682.204; *Dear Colleague Letter* GEN-06-02/FP-06-01 and GEN-06-03/FP-06-02.
Policy Information: 955/Batch 141
Guarantor Comments: None.

Total and Permanent Disability (TPD) Loan Discharges for Comakers and Endorsers

The *Common Manual* has been revised to provide policies related to the servicing of a comade Consolidation or PLUS loan, or a PLUS loan with an endorser when a comaker or endorser may be eligible for a TPD loan discharge.

Revised policy provides that if a comaker of a joint Consolidation loan or PLUS loan applies for a total and permanent disability loan discharge, the lender must continue servicing the loan for the non-disabled

comaker. The lender must protect the status of the loan during the conditional discharge period so that the loan does not become delinquent or more delinquent during the conditional discharge period. The lender may apply an administrative forbearance on the entire loan if the non-disabled comaker is not eligible for or does not choose another repayment option, deferment, discretionary forbearance, or reduced-payment forbearance. The administrative forbearance for the non-disabled comaker may begin no earlier than the date that the lender receives the disabled comaker's loan discharge application, or the date the lender receives the notification from the guarantor that one comaker is totally and permanently disabled, whichever is earlier. The forbearance ends on the date that the lender receives notice of the disabled comaker's final discharge determination. Deferment may begin no earlier than the date that the lender receives the disabled comaker's loan discharge application and ends on the date of the disabled comaker's final discharge determination, or the date that the non-disabled comaker otherwise would become ineligible for additional deferment, whichever is earlier.

Provisions for the discharge of the endorser's obligation apply only if the lender has begun collection activities against the endorser. If the lender is pursuing collection activities from the endorser and the endorser applies for a total and permanent disability loan discharge, the lender may not collect from the endorser but must continue to collect the entire loan amount from the borrower. The lender may not apply a conditional discharge administrative forbearance on the borrower's loan in this case. The lender may permit the loan to become more delinquent or to default if the borrower does not make payments or other repayment arrangements.

If the Department grants a final discharge on a comade Consolidation loan, the lender must resume collection activities on the remaining loan balance, collecting that balance from both the disabled and non-disabled spouses. If the Department denies the final loan discharge, the lender must refund to the guarantor the amount of the discharge payment previously received and return the loan to repayment with the corrected loan balance. No interest accrues on the disabled comaker's portion of the loan during the conditional discharge period.

If the Department grants a final discharge on a comade PLUS loan, there is no reduction of the loan's principal and the lender must resume loan collection activities on the full loan amount. The lender may bill only the non-disabled comaker. If the Department denies the final discharge, the lender may resume collection activities with both comakers.

If the Department grants a final discharge for a PLUS loan endorser, the endorser's obligation on the loan is discharged and the primary borrower assumes sole responsibility for repayment of the entire loan balance. The lender may not pursue collection activities against the endorser. If the endorser's final discharge is denied, the lender may resume collection activities with both the borrower and endorser, as appropriate.

The lender must ensure accurate that it reports the correct status of the non-dischargeable portion of the loan to the guarantor in a timely manner. The NSLDS currently reports joint Consolidation loans under one primary borrower only. However, to ensure proper reporting during the conditional discharge period, the lender should report the non-dischargeable portion under the non-disabled borrower's name and Social Security number. If the borrower on record with the NSLDS is the disabled borrower, the guarantor will update the NSLDS to reflect the non-disabled borrower as the borrower of record. If a final discharge is denied, the lender and guarantor may resume reporting the full balance of the loan under the borrower currently being reported. If a final discharge is granted, the lender continues to report the non-discharged portion of the Consolidation loan under the non-disabled borrower's name and Social Security number.

Affected Sections:	11.1.A	General Deferment Eligibility Criteria
	11.19	Forbearance
	11.19.F	Forbearance of Delinquent Loans
	11.19.G	Forbearance of Defaulted Loans
	11.19.H	Borrower Contact during Forbearance
	11.19.I	Establishing Repayment after Forbearance
	figure 11-2	
	11.20.P	Total and Permanent Disability
	13.8	Discharge
	13.8.F	Total and Permanent Disability

Effective Date: Total and permanent disability discharge requests received by a lender on or after July 1, 2007, unless implemented earlier by the guarantor.

Basis: *Conditional Disability Discharge: Joint Consolidations, PLUS Co-Borrowers,*

and Disabled Endorsers dated August 2006, developed by the Department in coordination with NCHELP's Default Aversion and Claims Standardization (DACS) subcommittee. The document is located on the Department's Conditional Disability Discharge Unit's (CDD) website at <http://www.fsacollections.ed.gov/contractors/ga/cdd/index.asp>. The document was updated with minor revisions and republished in November 2006.

Policy Information: 956/Batch 141
Guarantor Comments: None.

Discharging Underlying Loans of a Consolidation Loan

The *Common Manual* has been revised to state that the lender of a Consolidation loan must submit to the guarantor of the Consolidation loan a request for partial discharge of the portion of the Consolidation loan that represents any underlying loans that are eligible for discharge due to disability (only for comade Consolidation loans), closed school, death, false certification, unpaid refund, or another discharge type. Upon approval of the discharge, the guarantor will process a payment for the discharged principal and interest portion of the Consolidation loan and forward the payment to the Consolidation loan lender.

Affected Sections: 13.8 Discharge
Effective Date: Partial discharge requests filed by a lender on or after July 1, 2007, unless implemented earlier by the guarantor.
Basis: Private letter guidance letter from the Department (Pam Moran) dated April 9, 1997.
Policy Information: 957/Batch 141
Guarantor Comments: None.

Recapture of Excess Interest

The *Common Manual* has been updated to include information related to the Department's collection of excess interest on any FFELP loan first disbursed on or after April 1, 2006, for quarters in which the applicable interest rate exceeds the special allowance support level.

Affected Sections: A.2 Special Allowance
Effective Date: Effective for quarterly lender reporting and payment of excess interest on FFELP loans first disbursed on or after April 1, 2006.
Basis: Higher Education Act of 1965, Section 438(b)(2)(I)(v), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Interim Final Rules published in the *Federal Register* dated August 9, 2006, pages 45680, 45681, 45690, and 45705.
Policy Information: 958/Batch 141
Guarantor Comments: None.

Special Allowance

The *Common Manual* has been revised to clarify that a PLUS loan first disbursed on or after January 1, 2000, for any period prior to April 1, 2006, is eligible for special allowance only if the loan is accruing at the maximum interest rate specified in law (the cap) and the interest rate calculated prior to applying the cap exceeds the maximum interest rate for the loan.

The manual has also been revised to include an updated version of figure A-3, LaRS Special Allowance and Interest Rate Reporting for FFELP Loans.

Affected Sections: A.2 Special Allowance
Effective Date: Effective for quarterly lender reporting and payment of excess interest on FFELP loans first disbursed on or after April 1, 2006.
Basis: Higher Education Act of 1965, Section 438(b)(2)(I)(v), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Interim Final Rules published in the *Federal Register* dated August 9, 2006, pages 45680, 45681, 45690, and 45705.
Policy Information: 959/Batch 141
Guarantor Comments: None.

Excess Interest Calculation

The *Common Manual* has been updated to include formulas and explanations of the calculation of excess interest that the lender must remit to the Department. The excess interest rate is the applicable interest rate on any FFELP loan first disbursed on or after April 1, 2006, minus the appropriate special allowance support level. The special allowance support level is defined as the average of the bond equivalent rates of quotes of the 3-month commercial paper (financial) rates in effect for each of the days in the quarter (also called the 3-month commercial paper rate) as reported by the Federal Reserve in Publication H-15 for the 3-month period plus one of the following:

- 2.34% for a Stafford loan in repayment.
- 1.74% for a Stafford loan during the in-school, grace, or deferment period.
- 2.64% for a Consolidation or PLUS loan.

The quarterly amount of excess interest that is collected by the Department on a qualifying loan is determined by multiplying the average daily principal balance (not including unearned interest added to principal) of the loan by the appropriate excess interest rate, divided by four.

Affected Sections:	A.2.A Special Allowance Rates
Effective Date:	Effective for the quarterly calculation of excess interest to be remitted by lenders on FFELP loans first disbursed on or after April 1, 2006.
Basis:	Higher Education Act of 1965, Section 438(b)(2)(I)(v), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Interim Final Rules published in the <i>Federal Register</i> dated August 9, 2006, pages 45680, 45681, 45690, and 45705.
Policy Information:	960/Batch 141
Guarantor Comments:	None.

Partial Discharge of a Consolidation Loan

The *Common Manual* subsection that references claim and discharge provisions applicable to Consolidation loans has been updated to include cross-references to the specific cites within the manual that address the special claim and discharge provisions applicable to Consolidation loans. Information has also been added to explain that if a Consolidation loan is made to two spouses as comakers, the portion of the Consolidation loan attributable to one of the spouses may be discharged if that spouse becomes totally and permanently disabled.

Affected Sections:	15.5.F Delinquency, Default, and Claim Filing
Effective Date:	Closed school and false certification provisions retroactive to the implementation of the <i>Common Manual</i> . Teacher loan forgiveness provisions for Consolidation loans that do not include a FFELP or FDLP loan first disbursed before October 1, 1998. Death discharge provisions effective July 1, 2003. Unpaid school refunds granted on or after July 1, 2000, for loans disbursed in whole or in part on or after January 1, 1986. Total and permanent disability discharge requests received by a lender on or after July 1, 2007, unless implemented earlier by the guarantor.
Basis:	NCHELP/Default Aversion and Claims Standardization (DACs) subcommittee matrix of total and permanent disability (TPD) provisions for comakers and endorsers dated June 13, 2006; Final Rules published in the <i>Federal Register</i> on November 1, 2002, pages 67067 - 67069.
Policy Information:	962/Batch 141
Guarantor Comments:	None.