

NYSFAAA Conference 2007
Beginners Track

Loan Programs
...a Primer

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Two Loan Programs...

One Set of Rules (pretty much... 😊)

William D. Ford Federal Direct Loan
Federal Family Education Loan

LOAN PROGRAMS/ TYPES

Loan Types

- **Subsidized Stafford Loan**
 - **Unsubsidized Stafford Loan**
 - **PLUS Loans / Grad PLUS**
 - **Consolidation Loans**
 - **“Alternative” Loans**
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The College Cost Reduction and Access Act (H.R. 2669)

- On September 27, 2007, President Bush signed into law The College Student Relief Act (H.R. 2669).
- This new law reduces interest rates that “students” will pay in both the FFELP Program and the Federal Direct Student Loan Program on “subsidized” student loans.
- This new law went into effect on October 1, 2007.



The College Cost Reduction and Access Act (H.R. 2669)

- 6.8% for loans first disbursed July 1, 2006 to July 1, 2008
 - 6.0% for loans first disbursed July 1, 2008 to July 1, 2009
 - 5.6% for loans first disbursed July 1, 2009 to July 1, 2010
 - 4.5% for loans first disbursed July 1, 2010 to July 1, 2011
 - 3.4% for loans first disbursed July 1, 2011 to July 1, 2012
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Subsidized Stafford

- Eligibility based on financial need,
 - Cost of Attendance
 - Expected Family Contribution
 - Other Financial Assistance
 - = Maximum Loan Amount
 - Interest “subsidized” while student is “in-school and during “grace period”,
 - Fixed rate of 6.8% (2007-2008)
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Unsubsidized Stafford

- Eligibility not based on financial need, but total aid cannot exceed COA,
 - Cost of Attendance
 - Other Financial Assistance
 - = Maximum Loan Amount
 - Interest not “subsidized”. (Adds up while student is in-school),
 - Fixed rate of 6.8% (2007-2008),
 - Single application (prom note) for both Sub and Unsubsidized loans.
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PLUS LOAN (UNDERGRAD)

- Parent is Borrower,
 - Eligibility not based on financial need, but total aid cannot exceed COA,
 - Cost of Attendance
 - Other Financial Assistance
 - = Maximum Loan Amount
 - Interest not “subsidized”. (Adds up while student is in-school),
 - Fixed rate of 8.5% for FFELP schools and 7.90% for DL schools.
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PLUS LOAN (GRADUATE)

- Student is Borrower. Parent is not involved (Don't ask...),
- Eligibility not based on financial need, but total aid cannot exceed COA,
 - Cost of Attendance
 - Other Financial Assistance
 - = Maximum Loan Amount
- 8.5% Fixed Interest for FFELP Schools and 7.90% fixed interest for DL Schools - not “subsidized”, (Adds up while student is in-school).



“Alternative” Loans

- Not a Federal Aid program, just a private bank loan,
 - MUST be counted as a “resource” for Stafford/PLUS eligibility,
 - Usually a variable interest rate; but each lender sets own terms/conditions,
 - Generally, undergraduate students will need a credit-worthy co-signer.
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Borrower Eligibility

Basic Eligibility

To receive a Stafford or Graduate PLUS Loan (or for a parent to receive a PLUS loan), the STUDENT must meet the “eligible student” definition (34 CFR 668.32), including:

- Citizenship, selective service registration, matriculation, etc.,
 - Not in default on Title IV loans or owe a repayment on any federal grant,
 - and be enrolled at least half-time (loan program requirement).
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PLUS Loan eligibility

A parent can receive a PLUS Loan as long as the parent & student both meet the basic eligibility requirements.

The Parent PLUS borrower must:

- Be the biological or adoptive parent, or stepparent (if the stepparent's income is included in the FAFSA),
- Be a U.S. citizen or eligible non-citizen,
- Have a valid social security number.

A undergraduate (Parent) PLUS Loan can ONLY be used to pay for the educational expenses for a dependent undergraduate child.

Credit Eligibility

- A student does not need to pass a credit check to receive a Stafford Loan (or consolidation loan),
 - Parent PLUS borrowers and Student Grad PLUS borrowers must not have an “adverse” credit history,
 - Parent PLUS borrowers cannot be in default on any federal student loan,
 - Alternative Loan borrowers/cosigners must meet whatever credit criteria the lender may impose.
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PLUS Loans & Adverse Credit

If a parent is denied a PLUS loan, the parent may:

- Secure an endorser,
 - Appeal the decision,
 - If a parent is still denied a PLUS loan after appealing the lender's decision, the FAO can certify an additional unsubsidized loan for the student – remember to document.
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FAO's try to reduce a student's debt by determining the student's eligibility for grants before awarding a loan,

- FAO's try to reduce a student's debt by determining the student's eligibility for grants before awarding a loan,
 - The subsidized loan is always awarded first, with any remaining eligibility given in an unsubsidized loan,
 - PLUS/Alternative loans are determined last - The choice is up to the borrower.
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Annual/Aggregate Loan Limits

Annual Loan Limits effective July 1, 2007

Class Level	Subsidized/ Unsubsidized Stafford	Additional Unsubsidized Stafford
Freshman	\$3500	\$ 4,000
Sophomore	\$4500	\$ 4,000
Jr./ Senior	\$5500	\$ 5,000
Grad/Prof	\$8500	\$12,000

Loan Limits for Teacher Certification – FORMAL PROGRAMS

	Subsidized Stafford	Unsubsidized Stafford
Undergraduate degree or certificate program	\$3500	\$4000
Graduate degree or certificate program	\$5500	\$7000

Increased Eligibility for Health Profession Students

Certain Health profession students are eligible to receive increased unsubsidized loans.

Prorating Annual Loan Limits

Two situations require loan pro-ration:

- The student's academic program is shorter than a full academic year in length, or,
 - The program is a year or more in length, but the student's remaining period of study is shorter than a full year. (Student will be graduating in less than one year).
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Programs Shorter Than a Full Academic Year

When a student is enrolled in program shorter than a full academic year, you must use a proportional pro-
ration that is based on the lesser of:

$\frac{\text{\# of terms or clock hours enrolled}}{\text{\# of terms, clock hours in the academic year}}$

or

$\frac{\text{\# of weeks enrolled}}{\text{\# of weeks in the academic year}}$

Programs with Remaining Period of Study Shorter Than an Academic Year

When a student is enrolled in a program that is an academic year or more but the remaining period of study is shorter than an academic year; proportional pro-ration must be used:

of credit or clock hours enrolled

of credit or clock hours in the academic year

Prorating Annual Loan Limits

You may readjust a prorated loan when a student drops or adds after originating a loan, but it is not required.

Aggregate Loan Limits

	Sub/Unsub Stafford	Additional Sub/ Unsub Stafford
Undergraduate	\$23,000	\$23,000
Graduate	\$65,000	\$138,500
Independent undergrad and certain dependent students	\$46,000	

Students who exceed their aggregate loan limit are no longer “eligible students”, and lose all Title IV aid eligibility.

ACADEMIC YEAR DEFINITION And Loan Periods

Academic year Concept

- Since each student's annual loan eligibility is based on an academic year, we must define the academic year for each student,
 - A Scheduled Academic Year (SAY) is used to standardize when the majority of a school's students attend in a similar pattern (usually fall-spring).
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Two Types of Academic Years...

Scheduled Academic Year (SAY)

- Most “traditional” schools use a SAY,
 - Only term based credit-hour programs can use SAY,
 - A SAY has defined beginning and ending points for all students,
 - Addition of a Summer term as a “header” or “trailer” is permissible in SAY,
 - BBAY can be used at a SAY school for selected individuals.
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Two Types of Academic Years...

Borrower-Based Academic Year (BBAY)

- Clock-hour and non-term credit-hour programs must use BBAY,
 - A BBAY must include at least 30 weeks of instruction,
 - A BBAY is specific to an individual student,
 - The beginning point of a BBAY is when the student begins classes, or immediately after the previous BBAY ends.
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Loan Eligibility AND Academic year

Generally, a student who has received the annual loan limit cannot receive another loan until the following academic year.

A student can receive additional funds if:

- The student moves to a higher grade level during the academic year,
 - The student's dependency status changes during the academic year.
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Loan Period VS. Academic year

For most students, the “Loan Period” (on the loan certification) is the SAME as the academic year.

The minimum loan period is the the shortest of these periods:

- The academic year as defined by the school,
 - The period between the beginning of the student’s AY and the end of the student’s program (i.e. Dec. grads),
 - The remaining portion of the SAY (i.e. spring starts).
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Maximum Loan Period

The maximum loan period is normally the school's academic year, but the
**LOAN PERIOD CAN NEVER EXCEED
TWELVE MONTHS.**

School Certification AND the “MASTER PROMISSORY NOTE”

Certifying Eligibility

A school must certify that a student is eligible (in all ways) for a loan, and certify the amount of said eligibility. The school provides this information to the lender (and guarantor in FFELP) through a process known as “certification”.

Most schools perform this function electronically, but paper certifications are still an option.

Certifying Eligibility

A loan cannot be certified for more than:

- The amount borrower has requested,
 - The student's unmet need (sub loan only),
 - The student's Cost of Attendance (COA),
 - The student's maximum eligibility for the academic year/loan period.
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Borrower Confirmation

The borrower confirmation process is used to ensure that a student wants to borrow loans in subsequent academic years.

The confirmation process can be:

- Active - The loan will not be disbursed until the borrower accepts the proposed loan amounts and types, or requests changes to the package.
 - Passive - The loan will be disbursed unless the student declines the loan.
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Certification & Verification

If a student has been chosen for verification, a loan certification can be done before the verification is done as long as you believe the information on the FAFSA is correct.

However, the funds cannot be released until the verification is completed.

“...Danger, Will Robinson!!!”



WHY a “master” note

The multi-year or “serial note” feature of the MPN allows a student to receive additional loans without signing a new promissory note each year.

Multi-year use of the MPN

At Direct Loan schools, a MPN is valid up to ten years from the 1st anticipated disbursement date unless there were no disbursements made within one year from the first anticipated disbursement date.

At FFEL schools, a MPN is valid up to ten years from the borrower sign date or the date that the lender received the note unless there were no disbursements made within one year from the borrower sign date.

New MPNs

A new MPN is required if:

- A student changes lenders,
 - A student transfers to a school not eligible or choosing not to use the serial feature,
 - Or a student transfers to a school that participates in a different program than the previous school (FFELP vs. FDSL).
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Disbursements

WHAT IS “DISBURSEMENT”???

Disbursement is the delivery of funds (money) to the student’s account at the school.

Financial Aid professionals are PROHIBITED from participating in the actual disbursement of funds, but Financial Aid professionals usually set the rules and conditions under which the disbursement can be processed by the Bursar.

Payment to the Borrower

Payments may be made to the borrower in the FFEL program by:

- Electronic Funds Transfer (EFT)
- Master Check
- Individual Check

In the Direct Loan program, disbursements are always done through EFT.

Miscellaneous RULES For Disbursements

In most cases, loan funds must be disbursed in at least two installments with no installment exceeding 1/2 of loan amount. Schools with low default rates are exempt from this rule for single-term loans.

Schools must wait until 30 days after the start of classes before disbursing to first time, first year undergraduates. Schools with low default rates are exempt from this rule too.

A disbursement cannot be made earlier than ten days before the beginning of the loan period/term.

Delivery of FFEL Funds

For funds disbursed through EFT, Schools must

- Credit the student's account and deliver the remaining loan proceeds to the student or parent borrower, or,
- Deliver the loan proceeds directly to the student or parent borrower.

**Within 3 business days
(or return the funds to the lender within 10 business days).**

Delivery of FFEL Funds

Schools must provide -no earlier than 30 days prior and no later than 30 days after crediting the student account- notification to the borrower of an EFT disbursement with the notice of a student's right of refusal in 14 days.

Loan Fees

Origination Fees

- Origination fees can be included in student's COA,
 - FDSLPL Stafford loan origination fee is 2.5% of principal loan amount. (Will be reduced by .5% annually and remain at 1% after July 2010),
 - FFELP Stafford loans have a 1.5% origination fee and a 1% default fee. (Origination fee will be reduced annually by .5% until eliminated by July 2010),
 - FDSLPL PLUS origination is 4% of principal loan amount,
 - FFELP PLUS loan origination fee of 3% of the principal amount plus a 1% default fee (lender may not reduce PLUS origination fee).
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Loan Counseling

Loan Counseling

- It is important that a student receives entrance and exit counseling to help them understand their rights and responsibilities about their student loan,
 - Loan counseling can be done by financial aid counselors, videos or web services available,
 - The first counseling session must occur before the school releases the first Stafford disbursement to the student.
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Required Elements of Entrance Counseling

- Must occur before first disbursement for new borrowers
 - Rights and responsibilities
 - Repayment
 - Consequences of default
 - Must repay regardless of education outcome
 - For FDSLP schools – average loan indebtedness and monthly repayment
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Recommended Elements of Entrance Counseling

- Communication with Lender (Address changes, changes in enrollment)
 - Deferments, forbearance and cancellation options
 - Consolidation
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Required Elements of Exit Counseling

- Projected Monthly Repayment
 - Repayment Options
 - Debt Management
 - Deferment, Forbearance and Cancellation
 - National Student Loan Database (NSLDS)
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Questions?

