

## ISSUE

March/April  
2008

# Loan Notes

Courtesy of American Education Services

## FINAL RULES PUBLISHED

- continued from January/February 2008 *Loan Notes* -

On November 1, 2007, the U.S. Department of Education (ED) published Final Rules for the **Federal Family Education Loan Program (FFELP)** in the *Federal Register*, available at [ifap.ed.gov](http://ifap.ed.gov). These Final Rules contain the final regulations based on the Notices of Proposed Rule Making (NPRMs) which resulted from negotiated rulemaking by the Loans and General Provisions Committees following the implementation of the provisions of the **Higher Education Reconciliation Act of 2005 (HERA)**.

In the January/February 2008 Issue of *Loan Notes*, the Final Rules resulting from the Loans Committee meetings were detailed. The General Provisions Committee addressed—in addition to the loan related subjects of payment periods, Return of Title IV funds calculated on a payment period basis for nonstandard term programs in which the terms are not substantially equal in length, the treatment of Title IV grant and loan funds if a recipient does not begin attendance, and enrollment status definitions—the following changes affecting schools:

## CHANGES AFFECTING SCHOOLS

### Cash Management – Minor Prior-year Charges

EFFECTIVE DATE:  
July 1, 2008 unless implemented earlier by the school on or after November 1, 2007

In the preamble to the Final Rules, ED notes that Title IV funds that a student receives for an award year are intended to be used for that award year. **The Final Rules increase the amount of prior-year charges that may be paid with current year funds from less than \$100 to not more than \$200.** However, no more than \$200 in prior-year charges may be paid with current year funds. The school does not need an authorization from the student or parent if the prior-year charges are for tuition and fees or room and board, payable to the school. However, the school does need authorization from the student or parent if the prior-year charges are for other educationally related expenses.

### Cash Management – Electronic Disbursement of Title IV Funds

EFFECTIVE DATE:  
July 1, 2008 unless implemented earlier by the school on or after November 1, 2007

When a school pays a Title IV credit balance to a student or parent by issuing a check, the school is considered to have issued the check on the date that the check is mailed to the student or parent, or the date that it notifies the student that the check is available for pick-up at a specified location at the school. The school may hold the check for up to 21 days after the date it notifies the student. **If the student does not pick up the check within this 21-day period, the school must immediately mail the check to the student or parent, initiate an EFT to the student's or parent's bank account, or return the funds to the appropriate Title IV program.** A school may have a policy to require its students to provide bank account information or to open an account at the bank of the student's or parent's choosing as long as the policy does not delay the disbursement of Title IV funds. **For additional information on opening bank accounts for students or parents, please refer to 34 CFR §668.164 (c)(2) and (3).**



American Education Services

**Cash Management  
– Recovery of Unclaimed  
Title IV Funds**

EFFECTIVE DATE:  
July 1, 2008 unless  
implemented earlier by  
the school on or after  
November 1, 2007

Notwithstanding any State law, a school must return to ED, the lender, or guaranty agency, any Title IV program funds, except Federal Work Study program funds, that it attempts to disburse directly to a student or parent but the student or parent does not receive or fails to negotiate.

**If the school delivers FFELP funds by (an institutional) check and the check is not cashed, or if the school disburses loan funds by EFT and the EFT is rejected, the school may make additional attempts to disburse the funds, provided that those attempts are made no later than 45 days after the funds were returned or rejected.** If no additional attempts are made to disburse the funds, the funds must be returned to the FFELP lender before the end of the 45-day period. The school must cease any additional attempts and return those funds no later than 240 days after the date that the check was issued.

**Cash Management  
– Late Disbursement**

EFFECTIVE DATE:  
July 1, 2008 unless  
implemented earlier by the  
school on or after November  
1, 2007

**The late disbursement timeframe was changed from 120 to 180 days after the date on which the student became ineligible.** This maximum 180-day timeframe also applies to post-withdrawal disbursements.

The option for schools to appeal to ED to have a late disbursement made after the maximum timeframe for making late disbursements was eliminated.

**Loan Cancellation  
Notice and Affirmative  
Confirmation of a Loan**

EFFECTIVE DATE:  
July 1, 2008 unless implemented  
earlier by the school on or after  
November 1, 2007

Affirmative confirmation is a process under which a school obtains written confirmation of the types and amounts of FFELP loans that a borrower wants for an award year before the school credits the student's account with the loan funds.

**ED considers an affirmative confirmation to be a response, either in electronic form or on paper, accepting the loan(s) offered by the school.** Examples of affirmative confirmation are an award letter signed by the student accepting the loan or a process whereby the student accesses a secure Web site to inform the school that he or she accepts the loan.

▶ If the school obtains an affirmative confirmation from the borrower, the notice of credit to the student's account must be issued no earlier than 30 days before and no later than 30 days after the school credits the student's account. If the school does not obtain affirmative confirmation from the borrower, the notice of credit to the student's account must be issued no earlier than 30 days before and no later than 7 days after the school credits the student's account.

▶ If the school obtains affirmative confirmation from the borrower, the student or parent must inform the school if he or she wants to cancel all or a portion of the loan by the later of the first day of the payment period for which the funds are intended, or within 14 days after the date the school sends the notice of credit to the student's account.

▶ If the school did not obtain affirmative confirmation from the borrower, the student or parent must inform the school if he or she wants to cancel all or a portion of the loan within 30 days after the date the school sends the notice of credit to the student's account.

**Minimum Period for  
Certifying a Loan**

EFFECTIVE DATE:  
July 1, 2008 unless implemented  
earlier by the school on or after  
November 1, 2007

**Final Rules clarify that the minimum loan period for a program that measures progress in credits and uses a semester, trimester, or quarter system or has terms that are substantially equal in length with no term less than 9 weeks in length is a single term.**

The minimum loan period for a program that measures progress in clock hours or in credit hours but does not use a semester, trimester, or quarter system and does not have terms that are substantially equal in length with no term less than 9 weeks in length is the lesser of the academic year, the length of the student's program, or the remaining portion of that program if the student has less than the full program remaining (see following paragraph).

In the preamble text, ED discusses a student who transfers from School A into a program with credit or clock hours at School B, and School A had certified or originated a loan for a period that overlaps the period of enrollment at

School B. If the student, for example, is eligible for \$3,500, and received a loan of \$2,000 for a loan period of 11/12/06 to 9/30/07 at School A and then transferred with 18 credits to School B where the student would normally have a loan period of 8/15/07 to 5/25/08, the student could, under these final regulations, receive a loan at School B for the balance of the annual loan limit for the balance of the academic year that started at School A. Neither the number of credits transferred into School B nor the number of credits earned during the overlapping loan period is relevant. Thus, this student, if otherwise eligible, could receive a loan of \$1,500 for a loan period of 8/15/07 to 9/30/07. Note that if the overlapping loan period were sufficiently short (perhaps less than a month), some lenders might decline to make a loan. In that case, the student would not receive a loan for that short period of time and would end up with a new loan period starting on the day after the old loan period ended. **After the balance of the loan period from School A ends (i.e., starting on 10/1/07), the student could receive a new loan for a new academic year (or for the remainder of the program if there were less than an academic year remaining in the student's program), irrespective of whether the 10/1/07 date coincided with the start of the student's classes, as long as the student was enrolled and eligible at that time.**

Finally, ED clarified that for a student who completes a program at a school where the student's last loan to complete that program was for less than an academic year, and the student then begins a new program at the same school, the school may certify a loan for the remainder of the academic year. In this case, the school may certify a loan for an amount that does not exceed the remaining balance of the student's annual loan limit at the loan level associated with the new program. **In the Final Rules, ED clarified that this provision applies to a student who transfers from a non-degree to a degree program as well as to a student who transfers from an associate's degree program to a bachelor's degree program or from a bachelor's degree to a graduate degree program.**

EXAMPLE: If a student is in his third year at a school and received \$1,500 for less than an academic year to complete his or her associate's degree program and then immediately enrolled in a bachelor's degree program at the same school, the school could certify a loan for \$4,000 for the remainder of the academic year (\$5,000 - \$1,500 = \$4,000). Once that period of time is completed, the school could certify a new loan for the next academic year.

Please note that the 2007-2008 *Federal Student Aid Handbook*, Volume 3, Chapter 5, page 3-88, offers the following exception to the above:

**"Transfer from Graduate to Undergraduate program during an academic year"**

If a student transfers from a graduate program to an undergraduate program in the middle of an academic year, the undergraduate loan limit for the student's grade level applies, but amounts previously borrowed at the graduate level within the same academic year do not count against the undergraduate annual loan limit. The total amount awarded for the academic year may not exceed the higher (graduate/professional) annual loan limit."

**Annual Loan Limit Progression**

EFFECTIVE DATE:  
July 1, 2008 unless implemented earlier by the school on or after November 1, 2007

- ▶ For a program that measures academic progress in credit hours and uses standard terms (i.e., semesters, trimesters, or quarters), a student is considered to have completed an academic year and progresses to the next annual loan limit when the calendar period for the academic year has elapsed.
- ▶ For a program with nonstandard terms that are substantially equal in length and each term is at least 9 weeks of instructional time in length, a student is considered to have completed an academic year and progresses to the next annual loan limit when the calendar period for the academic year has elapsed.
- ▶ For a program that measures academic progress in clock hours, or for a program that measures progress in credit hours and does not have academic terms, or for a program that measures progress in credit hours and uses nonstandard terms that are not substantially equal in length or each term is not at least 9 weeks of instructional time in length, a student is considered to have completed an academic year and progresses to the next annual loan limit at the later of the student's completion of the weeks of instructional time or the date, as determined by the school, that the student has successfully completed the clock or credit hours in the academic year.

For purposes of this section, terms are substantially equal in length if no term in the loan period is more than 2 weeks of instructional time longer than any other terms in that loan period.

## AES WILL CEASE REVIEW OF THE TOTAL AND PERMANENT DISABILITY LOAN DISCHARGE APPLICATION ON BEHALF OF THE LENDER

On November 1, 2007, The U.S. Department of Education (ED) published Final Rules for the Federal Family Education Loan Program (FFELP) regarding Total and Permanent Disability Loan Discharge. The rules restructured the disability discharge eligibility requirements by:

- Adding that the borrower must submit a discharge application to the loan holder within 90 days of the date the physician certifies the borrower's application.
- Defining the date of the borrower's total and permanent disability as the date the physician certifies the borrower's eligibility on the discharge application form.
- Requiring a 3-year prospective conditional discharge period to establish eligibility for the discharge.
- Allowing the borrower eligibility criteria to remain for a discharge of a loan based on total and permanent disability if any loan received prior to the date the physician completed and certified the application is returned to the loan holder within 120 days of the disbursement date.

In preparation of the implementation of these rules, which are effective July 1, 2008, AES will cease reviewing the "Loan Discharge Application: Total and Permanent Disability" form on behalf of the lender effective for discharge requests received on or after May 1, 2008. Therefore, if AES receives an application directly from the borrower or an application forwarded to AES from the lender, AES will forward or return the application to the lender for review. The lender will be required to determine if the application supports the conclusion that the borrower meets the criteria for a total and permanent loan discharge prior to filing a disability claim. If the application supports this conclusion, the lender must file a disability claim with AES within 60 days of receiving a complete loan discharge application.

Upon receipt of the claim and discharge application, AES will determine if the borrower meets the criteria for a total and permanent disability discharge. If the borrower meets the criteria, AES will pay the claim and the lender will be required to notify the borrower that the loan will be assigned to ED for determination of eligibility for total and permanent discharge. If the borrower does not meet the criteria, the claim will be denied and a letter of explanation of the reason for the denial will be sent to the lender. The lender will be required to notify the borrower that the application for a disability discharge has been denied. Information on the total and permanent disability discharge process can be found in Subsection 13.8.F of the *Integrated Common Manual*, which is available at [aesSuccess.org](http://aesSuccess.org).

If you have any questions regarding this matter, please contact the **Loan Assets Management Department** at **800.892.7576**.

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## NOT-FOR-PROFIT HOLDER STATUS FOR SPECIAL ALLOWANCE BILLING

On November 20, 2007, the U.S. Department of Education (ED) published *Dear Colleague Letter* (DCL) FP-07-11, available at [ifap.ed.gov](http://ifap.ed.gov). In the DCL, **Federal Family Education Loan Program (FFELP)** lenders were given guidance on reporting changes for the quarterly **Lender's Request for Payment of Interest and Special Allowance (LaRS)**. All lenders are required to use the new special allowance payment (SAP) reporting codes listed below for loans first disbursed on or after October 1, 2007.

These reporting changes are the result of changes made to the SAP rates by the **College Cost Reduction and Access Act (CCRAA)**. The CCRAA reduced the special allowance subsidy paid on all FFELP loans (Stafford, PLUS, and Consolidation) first disbursed on or after October 1, 2007. Please refer to the December 2007 Issue of *Loan Notes*, available at [aesSuccess.org](http://aesSuccess.org) to view the applicable SAP rates for both not-for-profit holders and entities other than not-for-profit holders.

Since the SAP rate depends on whether the loan holder is an eligible not-for-profit holder, payment will also be based on another code that ED will set in the demographic profiles of those entities approved as not-for-profit lenders. ED expects to make additional changes to the LaRS reporting categories and codes in an effort to obtain more detailed loan status information beginning with the first quarter of Fiscal Year 2009.

| CODE | CATEGORY   |
|------|--|
| CI   | For all Stafford loans in an in-school, grace, or deferment period             |
| CJ   | For all Stafford loans in repayment (other than in deferment)                  |
| CK   | For all Consolidation loans  |
| CM   | For all PLUS loans, including those made to graduate and professional students |

## SPECIAL ALLOWANCE RATES FOR STAFFORD AND PLUS LOANS FOR THE QUARTER ENDING DECEMBER 31, 2007

PLEASE NOTE: The applicable Special Allowance Rates for Consolidation loans and for loans made or purchased with tax-exempt funds are available at [ifap.ed.gov](http://ifap.ed.gov).

The Treasury Bill (T-bill) rate for the quarter ending December 31, 2007 averaged 3.59%. [THE CATEGORIES FOR WHICH SPECIAL ALLOWANCE WAS PAID ON LOANS MADE OR PURCHASED WITH TAXABLE FUNDS ARE:](#)

| Loan Interest Rate | Special Allowance Rates | Special Allowance Quarterly Rate | LaRS (Lender Reporting System) Part III: Special Allowance Category Column E* |
|--------------------|-------------------------|----------------------------------|---|
| 7.00%              | 1.25%                   | .0313%                           | SA  |
| 7.00%              | .09%                    | .0225%                           | SB  |
| 8.00%              | .00%                    | .00%                             |   |
| 7.00%              | .00%                    | .00%                             | SD  |
| 8.00%              | .00%                    | .00%                             |   |
| 8.02%              | .00%                    | .00%                             |   |
| 8.17%              | .00%                    | .00%                             |   |
| 7.00%              | .00%                    | .00%                             | SE  |
| 8.00%              | .00%                    | .00%                             |   |
| 8.02%              | .00%                    | .00%                             | SG  |
| 8.05%              | .00%                    | .00%                             |   |
| 7.42%              | .00%                    | .00%                             | SH  |
| 6.62%              | .00%                    | .00%                             | SJ  |
| 7.22%              | .00%                    | .00%                             | SK  |

The Commerical Paper (CP) Rate for the same quarter averaged 4.92%

| Loan Interest Rate | Special Allowance Rates | Special Allowance Quarterly Rate | LaRS (Lender Reporting System) Part III: Special Allowance Category Column E* |
|--------------------|-------------------------|----------------------------------|---|
| 6.62%              | .04%                    | .0100%                           | CA  |
| 7.22%              | .04%                    | .0100%                           | CB  |
| 8.02% (PLUS)       | .00%                    | .00%                             | CD  |
| 6.62%              | .04%                    | .0100%                           | CE  |
| 6.80%              | (.14%)**                | (.0350%)**                       |   |
| 6.80%              | .46%                    | .1150%                           | CF  |
| 7.22%              | .04%                    | .0100%                           |   |
| 8.02% (PLUS)       | (.46%)**                | (.1150%)**                       | CH  |
| 8.50% (PLUS)       | (.94%)**                | (.2350%)**                       |   |
| 6.80%              | (.69%)**                | (.1725%)**                       | CI  |
| 6.80%              | (.09%)**                | (.0225%)**                       | CJ  |
| 8.50% (PLUS)       | (1.79%)**               | (.4475%)**                       | CM  |

\* For a detailed explanation of the Special Allowance codes, please visit the Integrated Common Manual (ICM) at [aesSuccess.org](http://aesSuccess.org). To access the ICM, click on 'Solutions for Lenders' on the left-hand side of the screen. Then click on 'Access financial aid publications' under the heading 'More Lender Solutions,' which is located in the middle column on the screen. Then select the most current update of the ICM. The Special Allowance codes are located in Appendix A, figure A-5.

\*\*Because this formula resulted in an amount less than zero, these loans will not receive special allowance. The rate shown is for the recapture of excess interest.



## AES Update

AES has been in the news recently, having temporarily suspended its role as lender due to the downturn in the national credit markets. In many cases, the media articles have been either misleading or misinterpreted by readers who think we are no longer involved in providing student loans and funding through the Pennsylvania State Grant and Special Programs.

**WE WOULD LIKE TO TAKE THIS OPPORTUNITY TO REASSURE OUR PARTNERS IN STUDENT FINANCIAL AID THAT WE REMAIN A STRONG ORGANIZATION AND ARE, AS ALWAYS, WORKING TO PROVIDE ACCESS TO HIGHER EDUCATION, INCLUDING STUDENT LOANS AND THE PENNSYLVANIA STATE GRANT.**

We've recently announced the participating lenders in our KeystoneBEST<sup>SM</sup> Loan Program for the 2008-2009 academic year, as well as our commitment to continue paying the 1% default fee for Pennsylvania residents and non-Pennsylvania residents attending a Pennsylvania school and who borrow through the KeystoneBEST Program.

AES KeystoneBEST lenders remain committed to meeting the borrowing needs of students and families. With the cooperation of our school and lending partners, we are ensuring a seamless transition for borrowers. Through the lending capacity of our lending partners and our commitment to continued access to education, we believe there will be no access problems in the 2008-2009 funding cycle for Federal Family Education Loan Program (FFELP) Stafford and PLUS loans.

For answers to some of the most frequently asked questions related to these issues, please see the electronic version of this Issue of *Loan Notes*. This is available at [aesSuccess.org](http://aesSuccess.org) under 'Financial Aid Products and Support for Schools' and then by selecting 'Financial Aid Publications.'

Thank you for your ongoing support of our mission of creating access to higher education.

LC-NOTE 031908

## CONTACT

### BUSINESS DEVELOPMENT & OPERATION/LOAN GUARANTY

Mon - Fri, 7:30 am to 9:00 pm ET

### STUDENT/PARENT GRANT & LOAN INQUIRIES

800.692.7392

[granthelp@aesSuccess.org](mailto:granthelp@aesSuccess.org)

[studentloans@aesSuccess.org](mailto:studentloans@aesSuccess.org)

### SCHOOL/LENDER INQUIRIES

800.443.0646

[loanhelp@aesSuccess.org](mailto:loanhelp@aesSuccess.org)



American Education Services

**Be Next.**

AES helps students and families from every walk of life afford higher education, because we believe in the potential of everyone who wants to learn.

AES is a comprehensive student aid service, which means that we're there for students all the way. Starting from the time they apply for a loan, we deliver the funds, we stay with them through the academic years and guide them through successful repayment.

Because in making an education affordable, we do more than help students go to college. We guarantee the next generation of leaders, thinkers and doers.