

Summary of Changes Approved through August 2008

This summary lists changes made since the 2008 Annual Update of the *Common Manual* was printed.

The policy changes listed below were approved August 21, 2008.

Changes made before the 2008 Annual Update was printed are shown in Appendix H of the Manual.

Common Manual Section	Description of Change	Effective Date/Triggering Event	#
Chapter 5: Borrower Eligibility			
5.16 Ineligible Borrowers	Aligns the Manual guidance regarding a borrower whose failure to begin attendance results in the school being required to return loan funds to the lender.	School determinations that a student did not begin attendance on or after July 1, 2008, unless implemented earlier by the school on or after November 1, 2007.	1041/150
5.16.A Ineligibility Based on Borrower Error			
5.16.B Ineligibility Based on School Error			
Chapter 8: Loan Delivery			
8.9.B Return of Ineligible Borrower Loan Funds	Aligns the Manual guidance regarding a borrower whose failure to begin attendance results in the school being required to return loan funds to the lender.	School determinations that a student did not begin attendance on or after July 1, 2008, unless implemented earlier by the school on or after November 1, 2007.	1041/150

eligibility. The **lender** must report the returned funds to the **guarantor** so that a subsequent loan may be **guaranteed**.

- The student advances to a higher **grade level** and, as a result of the grade level advancement, becomes eligible for additional Stafford loan funds.

5.15 Multiple School Enrollment

A student may be **enrolled** simultaneously on at least a half-time basis in more than one school. In this case, the student may be eligible to receive a Stafford and a **Grad PLUS loan**, if applicable—and the **parent** of a dependent **undergraduate student** may be eligible to receive a PLUS loan—at more than one school for the same **payment period** or **period of enrollment**.

It is necessary for the two schools to coordinate with each other to ensure that the student's eligibility for a Stafford or Grad PLUS loan, if applicable—and the parent's eligibility for a **parent PLUS loan**—is properly determined. If one school has already certified a loan for the student, the other school is required to take the following actions:

- Eliminate the student's living costs from the **cost of attendance (COA)** because those costs were included in the COA at the first school.
- Ensure that the student does not receive loan funds in excess of the annual Stafford loan limits at that school and that the total amount of the loans received by the student for enrollment at both schools does not exceed the student's highest applicable annual Stafford loan limit.

EXAMPLE: A fourth-year student at a 4-year school may decide to enroll simultaneously in a one-year computer program at a proprietary school. If the student requests and receives a \$3,000 **base Stafford loan amount** for his or her final year of study at the 4-year school, he or she has remaining base Stafford loan eligibility of \$2,500 as a fourth-year student. If the student subsequently applies for aid as a first-year student at the proprietary school, the student's base first-year loan eligibility at the proprietary school must be adjusted from \$2,625 to \$2,500 (because the \$5,500 maximum base fourth-year loan eligibility from the 4-year school minus the \$3,000 received at the 4-year school equals the student's remaining eligibility). In this case, the student does not exceed **annual loan limits** at either school and the combined total of the

student's loans does not exceed his or her highest applicable annual loan limit of \$5,500. In this scenario, if the student had borrowed the fourth-year base annual loan limit at the 4-year school, he or she would have no eligibility for a base loan amount at the proprietary school. Likewise, if the student borrowed only \$1,000 at the 4-year school, he or she would be eligible to borrow a base loan amount of \$2,625 at the proprietary school (the first-year annual loan limit).

If neither school is aware of the student's simultaneous enrollment in two different schools until after both schools have certified Stafford loans and the student receives loan funds in excess of his or her highest applicable annual Stafford loan limit, the schools must coordinate with each other to adjust the student's aid package at one or both schools to eliminate the excess loan amount. If neither school is able to eliminate the excess loan amount, the excess loan amount must be reported to the lender. Refer to **Subsection 6.11.E** for information regarding borrowers who exceed annual loan limits.

[07-08 FSA Handbook, Volume 3, Chapter 5, p. 3-78]

5.16 Ineligible Borrowers

A student for whom a Stafford or PLUS loan has been guaranteed is considered ineligible to receive the **loan proceeds** if any of the following occurs:

- The borrower or student provided false or erroneous information.
- The borrower or student did not qualify for all or a portion of the loan (see **Section 5.1** for information regarding eligibility requirements).
- The borrower received **federal interest benefits** on a subsidized Stafford loan for which the borrower did not qualify.
- The borrower has been convicted of, or has pled guilty or *nolo contendere*, to a crime involving fraud in obtaining Title IV funds and has not repaid those funds in full.
- ~~The student withdrew prior to the first day of classes, or was expelled prior to the first day of classes, or failed to attend classes, and the borrower did not repay loan proceeds received to either the school or the lender.~~¹ The student did not begin attendance in a **loan**

¹ Policy 1041 (Batch 150), approved August 21, 2008

period or payment period for which the loan funds were intended and the borrower did not repay loan proceeds he or she received to either the school or the lender. A student does not begin attendance if the school is unable to document the student's attendance in any class during a loan period or during a payment period within the loan period.

When a lender discovers or is notified by a school or guarantor at any time that a borrower was ineligible for any portion of a loan, the lender, in conjunction with the school and/or guarantor, must determine which party was responsible for the error: the borrower, the school, or the lender.

5.16.A Ineligibility Based on Borrower Error

In some situations, a borrower is considered ineligible for a loan due solely to his or her own error. The key factor in determining whether the borrower is solely responsible for his or her ineligibility is whether the borrower provided false or incorrect information in the loan process, misrepresented his or her eligibility, or otherwise acted in a way that caused the borrower to be ineligible for the loan. Examples of such misrepresentation are the misreporting of family size, income, or student or borrower default status.

Examples of situations in which a borrower is considered solely responsible for his or her ineligibility include, but are not limited to:

- Funds are delivered to a student or parent during the 10-day period prior to the first day of the first payment period in a loan period, but the student never attends classes, or withdraws, or is expelled prior to the first day of the first payment period and fails to pay those funds to the school or repay the funds to the lender.
- A borrower misrepresents his or her eligibility for a loan. Examples of such misrepresentation are the misreporting of family size, income, or student or borrower default status.

Failure to Begin Attendance

If FFELP loan funds were delivered to, or on behalf of, a student who did not begin attendance in a loan period or payment period for which the loan funds were intended, the borrower is ineligible for those funds. A student does not begin attendance if the school is unable to document the student's attendance in any class during a loan period, or

during a payment period within the loan period. Below are examples of situations in which a borrower is considered ineligible for loan funds due to borrower error:

- The school delivered loan funds to, or on behalf of, an otherwise eligible student as early as 10 days prior to the beginning of a loan period and the school later learned that the student did not begin attendance in the loan period.
- The school delivered loan funds to, or on behalf of, an otherwise eligible student as early as 10 days prior to a second or subsequent payment period in the loan period and the school later learned that the student did not begin attendance in the second or subsequent payment period.
- The lender directly disbursed funds to a student enrolled in a study-abroad or foreign school program and the student did not begin attendance in the loan period or payment period.

If a school delivers loan funds to or on behalf of an otherwise eligible borrower during the 10-day period prior to the first day of a second or subsequent payment period, and the student does not attend any classes in the second or subsequent payment period, or withdraws, or is expelled prior to the first day of the second or subsequent payment period, the school must determine whether the borrower was eligible to receive the funds. If the school determines that the borrower was ineligible for the loan funds, the school must notify the lender of the borrower's receipt of ineligible funds (see Subsection 12.4.F for lender servicing requirements for ineligible loans). If the borrower was eligible for the funds, the school must adhere to the applicable requirements for the return of Title IV funds (see Section 9.5). The school will not be assessed any liability for delivering loan funds in this instance unless the school knew, or should have known, that the borrower was ineligible to receive the funds at the time they were delivered (see Subsection 5.16.B for more information about ineligibility due to school error). However, as soon as possible, but no later than 30 days after the date the school becomes aware that the student will not, or did not begin attendance, the school must return to the lender all loan funds credited to the student's account at the school and the amount of any payments made directly by, or on behalf of, the student to the school for the loan period or payment period, as applicable. See Subsection 8.9.B for more information about returning ineligible borrower loan funds.¹

¹ Policy 1041 (Batch 150), approved August 21, 2008

For loan funds that a lender disbursed or a school delivered directly to a borrower for a [loan period](#) or [payment period](#) in which the student did not begin attendance, the school is not responsible for returning the funds. However, upon learning that a student will not, or did not begin attendance, a school must immediately notify the lender of the borrower's receipt of funds for which he or she was not eligible, including loan funds that a lender disbursed directly to a student enrolled in a study-abroad or [foreign school](#) program. The school should include in its notice to the lender the student's [withdrawal date](#), if applicable. For more information about required [enrollment reporting](#), see [Section 9.2](#).

The lender will issue a [final demand](#) letter to the borrower requiring the borrower to repay the full amount of the ineligible portion of the loan, including [interest benefits](#) and [special allowance](#) the lender billed to the Department. The lender must allow an [ineligible borrower](#) at least 30 days to respond from the date the final demand letter is mailed. If, at the end of the 30-day time frame, the borrower fails to comply with the terms of the final demand letter, the lender must treat the entire loan as though it were in default and file a claim payment request with the guarantor. See [Subsection 12.4.F](#) for more information about a lender's servicing requirements on ineligible loans due to borrower error.

When a borrower is solely responsible for his or her ineligibility, the borrower is not eligible for [interest benefits](#), an in-school or [grace period](#), or [deferment](#) on the ineligible loan(s). Additionally, the borrower may not consolidate or rehabilitate an ineligible loan, and may not have his or her [Title IV](#) eligibility reinstated by making [satisfactory repayment arrangements](#) on an ineligible amount. The borrower must fully repay the ineligible loan to regain Title IV eligibility. However, a borrower with an ineligible loan(s) may consolidate another eligible loan(s). [[§682.201\(d\)\(1\)\(i\)\(D\)](#); [§682.201\(d\)\(2\)](#)]

~~If it is determined that the borrower is *solely* responsible for the ineligibility of the funds, the lender must immediately mail the borrower a final demand letter and follow the ineligible borrower due diligence requirements outlined in [Subsection 12.4.F](#). [[§682.208\(f\)](#)]~~

5.16.B Ineligibility Based on School Error

In some cases, a [borrower](#) may receive loan [funds](#) for which he or she is ineligible due to a [school](#) error. These errors may include, but are not limited to:

- The school delivers funds to a borrower who has not maintained eligibility.
- The school certifies and delivers loan funds in excess of the borrower's eligibility.
- The school certifies and delivers loan funds to an ineligible borrower (for example, a borrower in [default](#) on another Title IV loan).
- The student fails to enroll in a course leading to a degree or certificate, and the course in which the student enrolls is not required for teacher [certification](#) or [recertification](#) in the [state](#) in which the school is located.
- The borrower misrepresents or misreports information that the school is required to verify, and the school fails to verify the information, resulting in the borrower's receipt of funds for which he or she is ineligible.
- The school knew that a student would not, or did not, begin attendance during the loan period or a payment period within the loan period before the school delivered loan proceeds to, or on behalf of, a student (e.g., the student notified the school that he or she would not attend or the school expelled the student).

If the [lender](#) discovers that a borrower received a loan, or portion of a loan, for which the borrower is ineligible because of a school error, the lender should contact the [guarantor](#). The lender must continue to service the loan in accordance with regulatory requirements. The guarantor will investigate the case and, if necessary, require the school to purchase any ineligible portion of the loan from the lender and repay any [interest](#) and [special allowance](#) paid by the [Department](#).

~~If a borrower misrepresents or misreports information that the school is required to verify, and the school fails to verify the information, resulting in the borrower's receipt of funds for which he or she is ineligible, the ineligibility must be considered a school error regardless of any error made by the borrower. In this situation the school must repay the¹~~

¹ Policy 1041 (Batch 150), approved August 21, 2008

~~ineligible amount to the lender. The amount paid to the lender must include the ineligible amount disbursed plus any outstanding accrued interest due to the lender, but must not include any payment or prepayment made by the borrower prior to the date the school repays the ineligible funds. The school also must pay to the Department all interest and special allowance benefits paid to the lender from the date of disbursement to the date the school repays the funds. If the school refunds the interest and special allowance to the lender, the lender must make an appropriate adjustment on its next quarterly Lender's Interest and Special Allowance Request and Report (LaRS report).~~

Until the school repays the lender, the lender must continue to service the loan as an eligible FFELP loan. If the school is required to repay the entire loan amount, the school may request that the lender assign the loan to the school at the time the school returns the ineligible loan funds to the lender.

~~If the loan is assigned to the school, the loan becomes a legal obligation between the school and the borrower. The borrower remains eligible for benefits identified in the promissory note, including deferment and various repayment options; however, the school is prohibited from billing the Department for any interest benefits or special allowance payments, and the loan is no longer insured by the guarantor. The borrower then repays to the school all funds delivered based on the terms of the promissory note.~~

In these cases, the school must repay the ineligible disbursed amount plus outstanding accrued interest and [interest benefits](#) or [special allowance](#) payments that the Department paid to the lender. See [Subsection 8.9.B](#) for detailed information about returning ineligible loan funds due to school error.¹

5.16.C Ineligibility Based on Lender Error

If the borrower receives funds for which he or she is not eligible due to a lender error, the lender may not bill the Department for interest or special allowance on the ineligible portion of the loan, and must refund to the Department any such amounts already paid. The ineligible portion of the loan is not insured by the guarantor. However, the borrower remains eligible for all benefits identified in the promissory note, including deferment and various repayment options.

An example of ineligibility due to lender error is the disbursement of funds to a student attending a foreign institution when the lender has received information, prior to the disbursement of such funds, that the student is no longer [enrolled](#) at least half time.

¹ Policy 1041 (Batch 150), approved August 21, 2008

8.9.B Return of Ineligible Borrower Loan Funds

If, for any other reason, the school is unable to document that the student attended classes during the payment period for which the loan is intended, the school must notify the lender of the student's withdrawal. Within 30 days of making this determination, the school must return any loan proceeds credited directly to the student's account and any proceeds delivered to the student or parent borrower and subsequently paid to the school.

If FFELP loan funds have been delivered to, or on behalf of, a student who did not attend classes during the payment period for which the loan is intended begin attendance in a loan period, or payment period within the loan period, the borrower may be considered ineligible for those funds. A student did not begin attendance if the school is unable to document the student's attendance in any class during a loan period, or during a payment period within the loan period. The determination of whether the ineligibility is due to borrower, school, or lender error is contingent upon when the funds were delivered. See [Section 5.16](#) for more information about ineligibility for loan funds due to borrower, school, or lender error.

[\[§668.21\(c\)\]](#)

If a school delivers loan proceeds to or on behalf of a student who did not attend classes during any payment period, the borrower is ineligible for those funds due to school error. The school must promptly repay those funds to the lender. The amount paid to the lender must include the amount disbursed that the borrower was ineligible to receive plus any outstanding accrued interest due to the lender, but must not include any payment or prepayment made by the borrower prior to the date the school repays the ineligible funds. The school also must repay to the Department any interest and special allowance benefits paid to the lender from the date of disbursement through the date the school repays the funds. If the school refunds subsidized interest and special allowance to the lender, the lender must make an appropriate adjustment on its next quarterly Lender's Interest and Special Allowance Request and Report (LaRS report).

If the school is required to repay the entire loan amount, the school may request that the lender assign the loan to the school using either the original or a true and exact copy of the [promissory note](#) at the time the school returns the loan funds to the lender. A lender must comply with the loan-record retention requirements in Subsection 3.4.A for any loan assigned to a school and for any remaining loans held by the lender that were originated under the same Master Promissory Note (MPN).

If a school delivers loan funds to or on behalf of an otherwise eligible student during the 10-day period prior to the beginning of the loan period, and the student does not attend any classes during the loan period, ceases to be enrolled at least half time, or is expelled prior to the start of the payment period, the borrower is ineligible for the funds due to borrower error. In this case, the school must notify the lender of the borrower's receipt of ineligible funds (see Subsection 12.4.F for lender servicing requirements for ineligible loans).

Ineligibility Due to Borrower Error

A borrower is considered ineligible for FFELP loan funds due to borrower error if any of the following occur:

- The school delivered loan funds to, or on behalf of, an otherwise eligible student as early as 10 days prior to the beginning of a loan period, and the school later learned that the student did not begin attendance in the loan period.
- The school delivered loan funds to, or on behalf of, an otherwise eligible student as early as 10 days prior to a second or subsequent payment period in the loan period, and the school later learned that the student did not begin attendance in the second or subsequent payment period.
- The lender directly disbursed funds to a study-abroad or [foreign school](#) student and the student did not begin attendance in the loan period or payment period.

The school will not be assessed any liability for delivering loan funds in this instance unless the school knew or should have known that the borrower was ineligible to receive the funds at the time they were delivered. However, the school must return to the lender all loan funds credited to the student's account at the school for the loan period or payment period, as applicable, that the student did not attend. The school must also return to the lender the amount of payments made directly by, or on behalf of, the student to the school for the loan period or payment period that the student did not attend, up to the total amount of the loan funds disbursed to the school. A school must return to the lender those funds for which it is responsible as soon as possible, but no later than 30 days after the date that the school becomes aware that the student will not, or has not, begun attendance.

[\[§668.21\(a\) and \(b\)\]¹](#)

¹ Policy 1041 (Batch 150), approved August 21, 2008

For loan funds that a lender disbursed or a school delivered directly to a borrower for a [loan period](#), or a [payment period](#) in which the student did not begin attendance, the school is not responsible for returning the funds. However, upon learning that a student will not, or did not, begin attendance, the school must immediately notify the lender of the borrower's receipt of funds for which he or she was ineligible, including loan funds that a lender disbursed directly to a student enrolled in study-abroad or [foreign school](#) program. A school should include in its notice to the lender the student's withdrawal date, if applicable. For information about a lender's servicing requirements on ineligible loans, see [Subsection 12.4.F](#). [[§668.21\(a\)\(2\)\(ii\)](#)]

Ineligibility Due to School Error

A borrower is ineligible for loan funds due to school error if a school knew, or should have known, that a student would not begin attendance during the loan period, or a payment period within the loan period, before the school delivered loan proceeds to, or on behalf of, a student (e.g., the student notified the school that he or she would not attend or the school expelled the student). The school must repay those funds to the lender as soon as possible, but no later than 30 days after the date that the school becomes aware that the student will not, or did not, begin attendance. The amount paid to the lender must include the amount disbursed that the borrower was ineligible to receive plus any outstanding accrued interest due to the lender, but must not include any payment or [prepayment](#) made by the borrower prior to the date the school repays the ineligible funds. The school also must repay to the Department any interest and [special allowance](#) benefits paid to the lender from the date of disbursement through the date the school repays the funds. If the school refunds subsidized interest and special allowance to the lender, the lender must make an appropriate adjustment on its next quarterly [Lender's Interest and Special Allowance Request and Report \(LaRS report\)](#). [[§668.21\(a\)\(iii\)](#) and (b); [§682.604\(d\)\(3\)\(i\)](#)]

If the school is required to repay the entire loan amount, the school may request that the lender assign the loan to the school using either the original or a true and exact copy of the [promissory note](#) at the time the school returns the loan funds to the lender. A lender must comply with the [loan record retention requirements](#) in [Subsection 3.4.A](#) for any loan assigned to a school and for any remaining loans held by the lender that were originated under the same [Master Promissory Note \(MPN\)](#).

Timely Return of Ineligible Loan Funds

The school's return of FFELP loan funds for which it is responsible is considered timely if the school does one of the following as soon as possible, but no later than 30 days after the date the school becomes aware that the student will not, or did not, begin attendance:

- Deposits or transfers the amount of funds to be returned into an account that the school maintains for federal funds (see [Section 8.1](#)).
- Initiates an [electronic funds transfer \(EFT\)](#) for the amount of returned funds.
- Initiates an electronic transaction that informs the lender to adjust the borrower's loan account for the amount of returned funds.
- Issues a check for the returned funds. In this case, the school's records must show that the lender's bank endorsed the check within 45 days after the date the school becomes aware that the student will not, or has not, begun attendance. [[§668.21\(d\)](#)]

If a school delivers loan funds to or on behalf of an otherwise eligible student during the 10-day period prior to the first day of a second or subsequent payment period, and the student does not attend any classes in the second or subsequent payment period, ceases to be enrolled at least half time, or is expelled prior to the start of the payment period, the school must determine whether the borrower is ineligible for the funds (see [Section 5.16](#)). If the school determines that the borrower was ineligible for the loan funds, the school must notify the lender of the borrower's receipt of funds for which he or she was ineligible (see [Subsection 12.4.F](#) for lender servicing requirements for such loans). If the school determines that the borrower was eligible for the funds, the school must adhere to the applicable return of Title IV funds guidelines (see [Section 9.5](#)). The school will not be assessed any liability for delivering loan funds in this instance unless the school knew or should have known that the borrower was ineligible to receive the funds at the time they were delivered. [[§668.21](#)]¹

¹ Policy 1041 (Batch 150), approved August 21, 2008