

Summary of Changes Approved through February 2013

This summary lists changes made since the 2012 Annual Update of the *Common Manual*.
 Change bars denote the latest policy changes, which were approved February 21, 2013.
 Changes made before the 2012 Annual Update are noted in Appendix H.

Common Manual Section	Description of Change	Effective Date/Triggering Event	Policy/Batch
Chapter 2: About the FFELP			
2.2.B The Interim Period	Moves the definition of “attendance at an academically-related activity” from Section 9.4 to Appendix G, and inserts a glossary definition for the synonymous term “academic attendance.” Revised policy strikes the outdated definition of “last date of attendance,” and clarifies Manual text so that it consistently refers to, as applicable, the glossary-defined term “withdrawal date” or the date that a student drops to less-than-half-time enrollment.	Student withdrawal determinations made by a school on or after July 1, 2011.	1277/188
2.3.C Common Forms	Adds information regarding distribution of the Department’s common form (published December 19, 2012) for borrowers to request the income-based repayment plan.	Distribution of the Department’s Income-Based (IBR) /Pay As You Earn / Income-Contingent (ICR) Repayment Plan Request form to a borrower on and after April 1, 2013, unless implemented no earlier than December 19, 2012.	1283/192
2.3.C Common Forms	Includes information regarding use of the Department’s common mandatory forbearance request forms. One form is the Mandatory Forbearance Request: Student Loan Debt Burden and the other is the Mandatory Forbearance Request: Medical or Dental Internship/Residency Program; National Guard Duty; Department of Defense Loan Repayment Program.	Distribution of the Department’s mandatory forbearance request forms to a borrower on and after December 31, 2012, unless implemented by a lender no earlier than July 30, 2012.	1279/189
Chapter 5: Borrower Eligibility			
5.1.C Graduate or Professional Student and Parent PLUS Loan Borrower Eligibility Requirements	Provides clarification as to which stepparent is eligible to apply for a parent PLUS loan.	Retroactive to the implementation of the <i>Common Manual</i> .	1278/188
Chapter 8: Loan Delivery			
8.8 Managing Credit Balances	Reorganizes the <i>Common Manual</i> by adding to Section 8.8, Managing Credit Balances. The guidance regarding the treatment of credit balances for a school that assesses all program costs upfront currently found in Subsection 8.7.I, Delivery Methods is moved to Section 8.8, Managing Credit Balances.	Prior-year charges paid by a school with current-year funds on or after September 8, 2009.	1280/189

Common Manual Section	Description of Change	Effective Date/Triggering Event	Policy/Batch
Chapter 9: School Reporting Responsibilities and the Return of Title IV Funds			
9.3 Leave of Absence 9.4 Withdrawal Dates 9.5.B Processing Returned Funds	Moves the definition of "attendance at an academically-related activity" from Section 9.4 to Appendix G, and inserts a glossary definition for the synonymous term "academic attendance." Revised policy strikes the outdated definition of "last date of attendance," and clarifies Manual text so that it consistently refers to, as applicable, the glossary-defined term "withdrawal date" or the date that a student drops to less-than-half-time enrollment.	Student withdrawal determinations made by a school on or after July 1, 2011.	1277/188
Chapter 10: Loan Servicing			
10.8.D Income-Based Repayment Schedule	Adds information regarding distribution of the Department's common form (published December 19, 2012) for borrowers to request the income-based repayment plan.	Distribution of the Department's Income-Based (IBR) /Pay As You Earn / Income-Contingent (ICR) Repayment Plan Request form to a borrower on and after April 1, 2013, unless implemented no earlier than December 19, 2012.	1283/192
10.8.D Income-Based Repayment Schedule 10.10.A Permitted Capitalization	Adds information to align with the income-based repayment plan final regulations published in the <i>Federal Register</i> on November 1, 2012. Provides individual lender flexibility regarding what type of income documentation a borrower must provide in order to determine whether the borrower has a partial financial hardship. Also outlines various notifications that a lender must send to a borrower under the income-based repayment plan provisions.	For repayment of all IBR-eligible loans based upon income-based repayment plan requests on or after July 1, 2013. For income-based repayment plan income documentation and required notifications, July 1, 2013, unless implemented by the lender no earlier than November 1, 2012.	1284/192
Chapter 11: Deferment and Forbearance			
Figure 11-2 Forbearance Eligibility Chart 11.24 Mandatory Forbearance 11.24.A Student Loan Debt Burden	Includes information regarding use of the Department's common mandatory forbearance request forms. One form is the Mandatory Forbearance Request: Student Loan Debt Burden and the other is the Mandatory Forbearance Request: Medical or Dental Internship/Residency Program; National Guard Duty; Department of Defense Loan Repayment Program.	Distribution of the Department's mandatory forbearance request forms to a borrower on and after December 31, 2012, unless implemented by a lender no earlier than July 30, 2012.	1279/189
Chapter 13: Claim Filing, Discharge, and Forgiveness			
13.8.H Unpaid Refund	Moves the definition of "attendance at an academically-related activity" from Section 9.4 to Appendix G, and inserts a glossary definition for the synonymous term "academic attendance." Revised policy strikes the outdated definition of "last date of attendance," and clarifies Manual text so that it consistently refers to, as applicable, the glossary-defined term "withdrawal date" or the date that a student drops to less-than-half-time enrollment.	Student withdrawal determinations made by a school on or after July 1, 2011.	1277/188
13.9.A Teacher Loan Forgiveness Program	States if the school where the borrower is employed meets the eligibility criteria of a qualifying school for at least the first year of the borrower's 5 qualifying years of service, the 4 subsequent years of qualifying teaching service continue to qualify the borrower even if the school does not meet the criteria.	Teacher loan forgiveness eligibility determinations made on or after April 9, 2012.	1276/188

Common Manual Section	Description of Change	Effective Date/Triggering Event	Policy/Batch
13.9.D Loan Forgiveness under the Income-Based Repayment (IBR) Schedule	Adds information pertinent to loan forgiveness and the requirement to notify borrowers under the income-based repayment plan provisions published by the Department on November 1, 2012.	For clarifications on qualifying payments, July 1, 2009. For Income-based repayment loan forgiveness notifications, notifications provided by the lender on or after July 1, 2013.	1285/192
Chapter 16: Cohort Default Rates and Appeals			
16.2 Calculation of School Cohort Default Rates	Corrects information on closed school, false certification and identity theft discharges included in the cohort default rate calculation and also introduces suggestions for schools regarding what a default management plan might include.	Expansion of the cohort default period from a two-year period to a three-year period beginning with fiscal year 2009.	1281/190
16.5 Consequences of High Official Cohort Default Rates for Schools			
Appendix G: Glossary			
Academic Attendance Attendance at an Academically-Related Activity Last Date of Attendance	Moves the definition of "attendance at an academically-related activity" from Section 9.4 to Appendix G, and inserts a glossary definition for the synonymous term "academic attendance." Revised policy strikes the outdated definition of "last date of attendance," and clarifies Manual text so that it consistently refers to, as applicable, the glossary-defined term "withdrawal date" or the date that a student drops to less-than-half-time enrollment.	Student withdrawal determinations made by a school on or after July 1, 2011.	1277/188

2.3.C Common Forms

The 1992 [Reauthorization of Title IV](#) of the HEA required the Department, in cooperation with industry participants, to develop common loan applications and [promissory notes](#), deferment forms, and reporting formats.

[Common forms](#) for the FFELP generally are developed through a collaborative effort led by the Standards and Operations Committee of the National Council of Higher Education Resources (NCHER) and, ultimately, the Department and the Office of Management and Budget (OMB).

NCHER's Standards and Operations Forms subcommittee coordinates forms development, and various NCHER Standards and Operations subcommittee workgroups to develop the forms and circulate them to the NCHER membership and other industry entities that represent schools, lenders, and other financial aid constituencies for initial comment. After the forms are reviewed and approved, the forms are submitted to the Department for its consideration and approval.

The Department reviews the forms, looking especially at regulatory and legal compliance, risk, and overall consistency with the goals of the Title IV programs, and revises the forms, if needed.

The Department submits forms designed to collect information to the OMB for review and approval. This process includes publication of notices in the *Federal Register* (typically two) that make the forms available for public comment. The first comment period is for 60 days and the second is for 30 days. After the Department and the OMB receive and review the comments and make any adjustments, the OMB assigns a control number and an expiration date to the forms, and the Department announces approval to the community.

Approved common forms are reviewed at least every 3 years for updates and revisions. The revision process follows the same general flow as that used for new forms.

Default aversion and [claim](#) forms listed later in this subsection are developed and updated by NCHER. The Department does not participate in the development or update of these forms, and thus the forms are not subject to OMB review or approval.

The following is a list of the common forms that are used in the FFELP. The most current forms may be found on the NCHER Website (www.ncher.us) as well as on many [guarantor](#) Websites.

Loan Origination Forms

- Federal Stafford Loan Master Promissory Note
- Addendum to the Federal Stafford Loan Master Promissory Note
- Federal Stafford Loan Plain Language Disclosure
- Federal Stafford Loan School Certification
- Federal PLUS Loan Application and Master Promissory Note
- Addendum to the Federal PLUS Loan Application and Master Promissory Note
- Federal PLUS Loan Plain Language Disclosure
- Federal PLUS Loan Information and School Certification
- Endorser Addendum to Federal PLUS Loan Application and Master Promissory Note
- Federal Consolidation Loan Application and Promissory Note
- Addendum to the Federal Consolidation Loan Application and Promissory Note
- Federal Consolidation Loan Verification Certificate
- Request to Add Loans to a Federal Consolidation Loan (180-Day Add-On Provision)
- Additional Loan Listing Sheet for Federal Consolidation Loan Application and Promissory Note

Income-Based Repayment Plan Request Form

- [Income-Based \(IBR\) / Pay As You Earn / Income-Contingent \(ICR\) Repayment Plan Request](#)¹

Return of Title IV Funds Worksheets

- Treatment of Title IV Funds When a Student Withdraws from a Credit-Hour Program
- Treatment of Title IV Funds When a Student Withdraws from a Clock-Hour Program
- Information Required When Referring Student Overpayments due to Withdrawal to Borrower Services—Collections

¹ Policy 1283 (Batch 192), approved February 21, 2013

recent total monthly gross income from employment and other sources received by the borrower. This can include, if applicable, pay statements from employers and documentation of any income received by the borrower from other parties. When establishing these payment amounts, a lender must ensure that no single installment is more than three times greater than any other installment. [§682.209(a)(6)(ii)]

The lender must collect and review the borrower's income documentation annually and adjust the borrower's payment amount accordingly. To ensure income information is current, the borrower cannot provide the information any earlier than 90 days before the payment is scheduled to be adjusted.

The lender must inform the borrower that the loan must be repaid within the maximum repayment period allowed. However, the lender must grant a forbearance to the borrower—or endorser, if applicable—for a period of up to 5 years in cases where the effect of decreased installment amounts paid under an income-sensitive repayment schedule would result in a loan not being repaid within the maximum repayment period (see Section 11.23). [§682.209(a)(6)(viii)(D)]

10.8.D Income-Based Repayment Schedule

Beginning on July 1, 2009, a borrower may request to repay any eligible loan under an income-based repayment (IBR) plan. A borrower who requests the IBR plan on or after July 1, 2013, must repay all of his or her eligible loans held by that lender under the IBR plan. If a borrower previously excluded IBR-eligible loans prior to July 1, 2013, the borrower may continue to exclude such loans from IBR as long as the borrower remains under the IBR plan. If the borrower has multiple lenders and wants to repay all eligible loans under the IBR plan, the borrower must request IBR from each lender separately. Eligible FFELP and Direct loans include the outstanding balances on all loans except:

- A defaulted loan.
- A FFELP or Direct parent PLUS loan.
- A FFELP or Direct Consolidation loan that repaid a FFELP or Direct parent PLUS loan.

[§682.215(b)(3)]¹

¹ Policy 1284 (Batch 192), approved February 21, 2013

A borrower may request an income-based repayment plan through the use of the Income-Based (IBR) / Pay As You Earn / Income-Contingent (ICR) Repayment Plan Request form.²

If a borrower selects IBR, the lender must determine, based on the borrower's documentation, if the borrower has a partial financial hardship (PFH) for the initial year in which the borrower selects this repayment plan and annually for each subsequent year that the borrower remains in the plan. A PFH exists if the borrower has an annual payment amount based on the loan balance of all of his or her eligible, outstanding FFELP and Direct loans that exceeds 15% of the difference between the borrower's adjusted gross income (AGI) and 150% of the poverty guideline for the borrower's family size and state of residence. The annual payment amount is calculated under a standard repayment schedule and based on a 10-year repayment period. The loan balance used is the greater of the following:

- The amount due on all eligible loans when the borrower initially entered repayment (i.e., *standard-standard*).
- The amount due on all eligible loans when the borrower requests the IBR plan (i.e., *permanent-standard*).

The poverty guideline refers to the income by state and family size as published annually by the U.S. Department of Health and Human Services (DHHS). If a borrower is not a resident of a state listed in the poverty guidelines, the lender uses the DHHS poverty guideline for the 48 contiguous states.

To enable the lender to ~~make this determination~~ determine whether the borrower has a PFH, the lender must collect documentation of the borrower's AGI that is acceptable to the lender. ~~either:~~

If the borrower's AGI is not available or the lender believes that the borrower's reported AGI does not reasonably reflect the borrower's current income, the lender must collect other documentation to verify the borrower's income.

[§682.215(e)(1)(i) and (ii); §685.221(e)(1)(i) and (ii)]³

- ~~A signed copy of the page(s) of the borrower's most recent federal tax return that contains the borrower's AGI. If the borrower's tax return was filed electronically, the lender must ensure that the copy~~

² Policy 1283 (Batch 192), approved February 21, 2013

³ Policy 1284 (Batch 192), approved February 21, 2013

obtained from the electronic submission process is signed. If the borrower provides a copy of his or her most recent federal tax return, the borrower is not required to provide copies of any other tax return forms, schedules, attachments, or worksheets, including W 2 Forms. Unless the lender has reason to believe that the information on the tax return is not accurate, it may rely upon the AGI amount reported on the tax return for purposes of the PFH determination. If the lender questions the accuracy of the signed copy of the tax return submitted by the borrower, it must require the borrower to provide the lender with a signed consent form (IRS Form 4506 T) or the tax transcript that is received after submitting Form 4506 T to the Internal Revenue Service (IRS). [Department's Electronic Announcement dated June 12, 2009]

- The tax transcript information from the IRS, which can be obtained by the borrower submitting a signed consent form (IRS Form 4506 T) for the disclosure of applicable AGI and other tax return information from the IRS directly to the IRS, or to the lender for submission to the IRS. [§682.215(e)(1); §685.221(e)(1)]

However, if the borrower's AGI is not available or if the lender believes that the borrower's AGI does not reflect the borrower's current income, the lender may use other documentation, provided by the borrower, to verify income.

For a married borrower filing taxes separately, AGI includes only the borrower's income. For a married borrower filing taxes jointly, AGI includes both the borrower's and spouse's income. A married borrower who files a joint tax return may include with his or her eligible loans any eligible loans owed by the borrower's spouse for purposes of determining PFH eligibility. If the lender does not hold at least one of the spouse's eligible loans, the lender must obtain the spouse's consent for the lender to obtain information about the spouse's eligible loans from the National Student Loan Data System or obtain from the borrower or spouse other documentation, acceptable to the lender, of the spouse's eligible loan information. In this situation, the lender must:

Step 1: Determine each spouse's percentage of the couple's total eligible loan debt.

Step 2: Adjust the borrower's monthly payment amount by multiplying the calculated total payment amount by the percentage calculated in Step 1.

If a borrower's loans are held by multiple lenders, the lender must adjust the monthly payment amount by multiplying the payment calculated in Step 2 by the percentage of the total outstanding principal balance of eligible loans held by the lender.

Step 3: Apply the PFH payment amount rules explained under the Payment Amount Calculation subheading below.

[§682.215(a)(1) and (b)(1)(ii); §682.215(e)(1)(iii); §685.221(a)(1) and ~~(b)(1)~~ (b)(2)(ii)]¹

The borrower must provide a self-certification of family size to the lender. If the borrower fails to certify family size, the lender must assume a family size of one. Family size includes the following:

- The borrower and the borrower's spouse.
- The borrower's children, including unborn children who will be born during the year for which the borrower certifies family size, if the borrower provides more than half of the children's support.
- Other individuals who, at the time the borrower certifies family size, live with the borrower and receive more than half of their support from the borrower and will continue to receive this support from the borrower for the year being certified. Support includes money, gifts, loans, housing, food, clothes, car, medical and dental care, and payment of college costs.

Payment Amount Calculation

The borrower's maximum annual payment to determine PFH is limited to no more than 15% of the amount by which the borrower's annual adjusted gross income exceeds 150% of the DHHS poverty guideline for the borrower's family size. The result is divided by 12 to obtain the monthly payment amount.

PFH Eligibility and Payment Amount Calculation Example:

A borrower has an AGI of \$50,000, a family size of 5, total loans of \$25,000, and is a resident of Virginia.

Step 1: Obtain the DHHS poverty guideline for the family size and state. For this example, the applicable DHSS poverty guideline is \$25,790.

¹ Policy 1284 (Batch 192), approved February 21, 2013

Step 2: Multiply the DHHS poverty guideline by 150% or $\$25,790 \times 1.5 = \$38,685$.

Step 3: Subtract the result in step 2 from the borrower's AGI or $\$50,000 - \$38,685 = \$11,315$.

Step 4: Calculate the borrower's maximum annual payment amount by multiplying the result of step 3 by 15% or $\$11,315 \times .15 = \$1,697.25$.

Step 5: Determine the annual payment amount on the total of the borrower's loans based on a standard 10-year [repayment schedule](#) and the applicable interest rate. In this example, the borrower's total loan amount is \$25,000 at an interest rate of 6.8% which results in an annual payment amount of \$3,452.40.

Step 6: Since the annual payment amount in Step 5, \$3,452.40, is greater than the maximum annual payment amount in Step 4, \$1,697.25, the borrower has a [partial financial hardship](#).

Step 7: To calculate the borrower's monthly payment amount, divide the result of Step 4 by 12 or $\$1,697.25 / 12 = \141.44 .

If the lender does not hold all of the borrower's eligible loans, the borrower's monthly PFH payment amount is multiplied by the percentage of the borrower's total outstanding principal amount of eligible loans that are held by the lender making the determination of eligibility. For this calculation, the lender may access [NSLDS](#) to determine the outstanding principal amount of the borrower's eligible loans that are held by other lenders. If the result of this calculation is less than \$5.00 at the lender level, then the borrower's monthly PFH payment amount is \$0. If the result of the calculation is equal to or greater than \$5.00 but less than \$10.00 at the lender level, then the borrower's monthly PFH payment amount is \$10.00.

~~If a borrower selects an IBR plan, the lender must—unless the borrower requests otherwise—require that all eligible loans held by the lender be repaid under the IBR plan. If the borrower has multiple lenders and wants to repay all eligible loans under the IBR plan, the borrower must request IBR from each lender.~~

The lender must recalculate the monthly [permanent-standard](#) payment amount for a borrower when any of the following occurs:

- The borrower ceases to have a PFH or chooses not to make PFH payments but remains in the IBR plan.

- ~~The borrower fails to provide within 10 days of the specified annual deadline documentation of the borrower's AGI which is acceptable to the lender (and, if applicable, access to the borrower's spouse's loan information), unless the lender is able to determine the borrower's new monthly payment amount before the end of the borrower's current annual payment period, ~~a signed copy of his or her most recent federal tax return, or fails to renew or withdraws consent for tax transcript information from the IRS (via IRS Form 4506 T)~~. See ~~above for more information on the documentation requirements.~~ [\[§682.215\(e\)\(7\)\]](#)~~

To recalculate the borrower's monthly payment amount under either of the two preceding bullets, a lender uses a [standard repayment schedule](#) for a 10-year repayment period based on the borrower's outstanding loan balance at the time that the borrower began repayment under the IBR plan. ~~This~~ The combined repayment period under IBR and under the newly-calculated standard repayment plan monthly payment amount (a.k.a. [permanent-standard](#)) may result in a total period in repayment period that exceeds 10 years.

If the lender receives the borrower's information within 10 days of the specified annual deadline, the lender must determine promptly the borrower's new monthly payment amount. If the lender does not determine the new monthly payment amount by the end of the borrower's current annual payment period, the lender must prevent the borrower's monthly payment amount from being recalculated using the permanent-standard calculation and maintain the borrower's current scheduled monthly payment amount until the lender processes the information received from the borrower and determines the new monthly payment amount. If the new monthly payment amount is less than the borrower's previously calculated monthly income-based payment amount, the lender must make the appropriate adjustment to the borrower's account (including, but not limited to, interest subsidy and special allowance billings) to reflect any payments at the previously calculated amount that the borrower made after the end of the most recent annual payment period. Unless the borrower requests otherwise, the lender does not apply any additional amounts to future payments.

If the new monthly payment amount is equal to or greater than the borrower's previously calculated income-based monthly payment amount, the lender does not make retroactive any adjustments to the borrower's account.¹

¹ Policy 1284 (Batch 192), approved February 21, 2013

In both cases above, the new annual payment period begins on the day after the end of the most recent annual payment period.

[§682.215(e)(8)(i)-(iii); §685.221(e)(8)(i)-(ii)]

If the lender receives the borrower's information more than 10 days after the specified annual deadline and the borrower's monthly payment amount is recalculated to the permanent-standard amount, the lender may grant forbearance with respect to payments that are overdue or would be due at the time the new calculated income-based monthly payment amount is determined only if the new income-based monthly payment amount is zero or is less than the borrower's previously calculated income-based monthly payment amount. The lender may not capitalize interest that accrues during the portion of this administrative forbearance period that covers payments due after the end of the prior annual payment period.

[§682.215(e)(9); §685.221(e)(9)]

If a borrower chooses to leave IBR, a lender recalculates the borrower's monthly payment amount. For any FFELP or Direct loan other than a Consolidation loan, the monthly payment amount is recalculated by using-based on a standard repayment schedule for the time remaining on a 10-year repayment period, and based on the borrower's outstanding loan balance at the time the borrower elects to leave IBR (a.k.a. *expedited standard*). For a Consolidation loan, the monthly payment amount is recalculated, based on the applicable time remaining as initially determined when the Consolidation loan went into repayment, and on the borrower's outstanding loan balance at the time the borrower elects to leave IBR, up to a maximum of 30 years. (See [Subsection 15.5.C](#) for information on applicable repayment periods.) In either case, the recalculated payment amount is referred to as the expedited-standard payment amount.

[§682.215(d)(2); §685.221(d)(2)(i)]

After leaving IBR and being assigned an expedited-standard payment amount, a borrower may request a change to a different repayment plan after making one monthly payment. This monthly payment may be the full expedited-standard amount or any payment amount greater than \$0 made under a reduced-payment forbearance. (See [Subsection 11.22.A](#) for information on a discretionary reduced-payment forbearance.)

[§682.215(d)(3); §685.221(d)(2)(ii); *Federal Register* dated November 1, 2012, p. 66111]

Required Notifications

The lender must send a written notification to the borrower after it makes a determination that a borrower qualifies for the IBR plan for the year the borrower initially elects the plan and for any subsequent year that the borrower has a PFH. The notification must include all of the following information:

- The borrower's scheduled income-based monthly payment amount and the current annual payment period for which this amount applies.
- A statement that explains that the borrower must annually provide documentation of the borrower's AGI, spouse's loan information (if applicable) and self-certification of his or her family size if the borrower chooses to remain on the IBR plan. The lender must advise the borrower that he or she will be notified in advance of the date by which the lender must receive this information.
- An explanation of the consequences if the borrower does not provide the required information:
 - = The borrower's monthly payment will be converted to the permanent-standard amount.
 - = If the borrower provides the requisite documentation of income but does not recertify his or her family size, the borrower's continued eligibility for an income-based payment will be determined based on a family size of one.
- An explanation of the consequences if the borrower no longer chooses to leave the income-based repayment plan.
- An explanation of the borrower's option to request, at any time during the borrower's current annual payment period, that the lender recalculate the borrower's monthly payment amount if the borrower's financial circumstances change and the income amount that was used to calculate the borrower's current monthly payment no longer reflects the borrower's current income.¹

¹ Policy 1284 (Batch 192), approved February 21, 2013

If the lender recalculates the borrower's income-based monthly payment amount based on the borrower's request for early re-evaluation, the lender must send the borrower a written notification that includes all of the information outlined above. Early re-evaluation of a new income-based monthly payment amount establishes a new annual payment period.

For each subsequent year that a borrower who currently has a PFH remains on the IBR plan, the lender must notify the borrower in writing of the requirements to provide documentation of the borrower's AGI, spouse's loan information (if applicable) and self-certification of his or her family size if the borrower chooses to remain on the IBR plan. The lender must send this notice to the borrower no later than 60 days and no earlier than 90 days prior to the borrower's annual deadline date. The borrower's annual deadline date must be no earlier than 35 days before the end of the borrower's annual payment period. The notification must provide the borrower with all of the following information:

- The borrower's annual deadline date.
- The consequences if the lender does not receive the information within 10 days following the borrower's annual deadline date, including:
 - = The borrower's monthly payment amount will be changed to the permanent-standard payment amount.
 - = The effective date for the permanent-standard monthly payment amount.
 - = An explanation that unpaid accrued interest will be capitalized at the end of the borrower's current annual payment period.

Each time a lender determines that a borrower no longer has a PFH for a subsequent year that the borrower wishes to remain on the IBR plan the lender must send the borrower a written notice that includes all of the following information:

- The borrower's monthly permanent-standard payment amount, recalculated based on the borrower no longer having a PFH.
- An explanation that unpaid accrued interest will be capitalized at the time the lender determines that the borrower no longer has a PFH.

- Information about the borrower's option to request, at any time, that the lender re-determine whether the borrower has a PFH, if the borrower's financial circumstances change and the income amount used to determine that the borrower no longer has a PFH does not reflect the borrower's current income.
- An explanation that the borrower will be notified annually of this option.

If the lender determines that the borrower again has a PFH, the lender must recalculate the borrower's monthly payment as applicable, and send the borrower a written notification that includes the information described in the first set of bullets under this subheading. Redetermination of a new income-based monthly payment amount establishes a new annual payment period.

For each subsequent year that a borrower remains in IBR, but does not have a PFH, the loan holder must send the borrower a written notification reminding the borrower about the borrower's option to request, at any time, that the lender re-determine whether the borrower has a PFH based on the borrower's current income.
[§682.215(e)(2)-(5); §685.221(e)(2)-(5)]¹

10.8.E Extended Repayment Schedule

The extended repayment schedule is limited to “new borrowers” on or after October 7, 1998, with an outstanding balance of principal and interest in FFELP loans totaling more than \$30,000. The lender may schedule the borrower for standard or graduated installments over a period not to exceed 25 years.
[HEA §428(b)(9)(A)(iv); §682.209(a)(6)(ix); Different rules apply to the FDLP. For more information, see §685.208(d) and (e)]

A “new borrower” on or after October 7, 1998, may qualify for an extended repayment schedule if the borrower has multiple lenders with an aggregate FFELP loan amount totaling more than \$30,000. A lender must retain a record of the basis for determining a borrower's eligibility for an extended repayment schedule, if the total loan amount it holds is not more than \$30,000.

¹ Policy 1284 (Batch 192), approved February 21, 2013

Also, a lender may choose to charge a borrower an interest rate that is lower than the maximum interest rate permitted by statute (*statutory rate*). If the lender charges a lower rate, the lender must ensure that reports to the Department (such as the *Lender's Interest and Special Allowance Request and Report* [LaRS report]) are adjusted appropriately. (See *Subsection 7.4.B* regarding lender disclosure requirements when offering lower interest rates.) If a lender chooses to charge a lesser interest rate, it must notify the borrower, at the time the lower interest rate is offered, that the lower interest rate ends on the date the loan is purchased by the guarantor as a *default* or *ineligible borrower claim*. The revocation of the lower interest rate at the point of default does not apply to an interest rate that is reduced as a result of the SCRA. The loan will revert to the applicable statutory rate as of the date the defaulted loan or ineligible borrower claim is purchased.

10.9.C Excess Interest Rebates

Effective for loans first disbursed on or after April 1, 2006, lenders are required to refund excess interest on Stafford, PLUS, and Consolidation loans for any quarter in which the *applicable interest rate* of the loan exceeds the *special allowance* support level. See *Figure A-3* and *Figure A-4* for further information on the current calculation of excess interest rebates.

For historic information about previous Stafford loans that were eligible for excess interest rebates, and the conversion of these loans to a *variable interest rate*, see *Section H.2*.

10.9.D Payment of Accrued Interest on Loans Not Eligible for Federal Interest Benefits

A lender must arrange with the borrower of a loan that is not eligible for *federal interest benefits* (an unsubsidized or nonsubsidized Stafford, PLUS, or SLS loan) the way in which the borrower will pay accruing interest during periods when regular principal payments are not due. Interest begins accruing on the date of the first *disbursement* and may become a substantial sum over the course of a long period of continuous enrollment or *deferment*. The loan file or servicing history must include *documentation* of the *agreement* (between the lender and borrower) for the borrower to satisfy the interest by one of the following methods:

- Monthly or quarterly interest payments, in which the borrower pays the interest as it accrues.

- *Capitalization* as permitted by federal regulations and the terms of the borrower's *promissory note*. The borrower repays the accrued interest as part of his or her regular *repayment period*.
- A single lump sum payment at the end of a deferment period or when repayment of principal begins or resumes.

The borrower's signature on a *Master Promissory Note (MPN)* authorizes the lender to capitalize unpaid accrued interest on all of the borrower's FFELP loans as permitted under the *Higher Education Act* and federal regulations (see *Section 10.10* for information about capitalizing accrued interest).

10.10 Capitalizing Accrued Interest

Capitalization of interest on all FFELP loans is permitted under the terms of the *promissory note* and federal regulations. A lender capitalizes interest by adding accrued interest to the loan's *principal balance*.

10.10.A Permitted Capitalization

A lender may capitalize unsubsidized interest that accrues during:

- An *in-school period* or *grace period*, if capitalization is expressly authorized by the promissory note (or with the written consent of the *borrower*).
- A period of authorized *deferment* or authorized *forbearance*, except a period of *administrative forbearance* granted to collect documentation of a deferment, forbearance, change in repayment plan, or loan consolidation (see *Section 11.21*).

A lender also may capitalize unpaid interest accrued during the repayment period of a borrower who is repaying under the income-based repayment (IBR) plan if the borrower fails to submit timely the documentation required to renew the IBR option. In that case, the lender may capitalize unpaid accrued interest at the end of the borrower's current annual payment period. See *Subsection 10.8.D* for more information regarding capitalization and IBR.¹

¹ Policy 1284 (Batch 192), approved February 21, 2013

- *Non-profit organization* means an organization, under section 501(c)(3) of the Internal Revenue Code, which is exempt from taxation under section 501(a) of the Internal Revenue Code.
 - *Qualifying loan* means a Federal Perkins, FFELP, or FDLP Loan, (excluding parent PLUS loans made under the FFELP and FDLP and Federal Consolidation Loans and Direct Consolidation Loans that repaid a parent PLUS loan).
 - A qualifying joint Consolidation loan is eligible. However if only one of the two borrowers meets the eligibility requirements, the repayment applies only to the remaining balance of the joint Consolidation loan that is attributable to the loans originally received by the borrower who performed the qualifying employment.
 - *Year* means a consecutive 12-month period that begins on a date identified by the Department that is on or after the date of the signed written service agreement between the borrower and the Department.
- [HEA §428L; *Federal Register* dated July 7, 2010]

13.9.D Loan Forgiveness under the Income-Based Repayment (IBR) Schedule

Under **IBR**, a borrower who meets all eligibility requirements may have his or her outstanding principal balance and accrued interest forgiven on a qualifying **FFELP** loan. To be eligible for IBR loan forgiveness after 25 years, the borrower must have participated in the IBR plan and have made at least 300 monthly qualifying payments or equivalents on or after July 1, 2009, by satisfying any of the following conditions:

- Made monthly loan payments, equal to or greater than \$0 dollars, based on a **partial financial hardship (PFH)**.
- Made monthly loan payments under any **repayment plan** that were equal to or greater than the amount required under the **standard repayment schedule** with a 10-year repayment period for the amount of the borrower's loans that were outstanding at the time the loans initially entered repayment (*standard-standard*).
- Made monthly loan payments, after the borrower no longer had a partial financial hardship or after the borrower stopped making income-based payments, under the standard repayment schedule based on a 10-

year **repayment period** for the amount of the borrower's loans that were outstanding at the time the borrower selected the IBR plan (*permanent-standard*).

- Made monthly payments of any amount under a standard repayment plan based on a 10-year repayment period.¹
 - Received an **economic hardship** deferment on eligible loans.
- [§682.215(f)(1) and (2); §685.221(f)(1) and (2)]

The beginning date for the 25-year repayment period for forgiveness for a borrower with a PFH is the date that the borrower makes a qualifying payment or receives an economic hardship deferment on an eligible FFELP loan(s). A borrower may have loans with different beginning dates for the 25-year repayment period for loan forgiveness. Although the “begin” date(s) may be prior to the date(s) that the borrower qualified for the IBR plan, a “begin” date must not be prior to July 1, 2009. If a borrower satisfies the loan forgiveness requirements, the Department pays the outstanding balance and accrued interest on any eligible FFELP loan, including a rehabilitated loan for which the borrower qualified or re-qualified for IBR (see **Section 13.7**).

[§682.215(f)(3)and(4); §685.221(f)(3) and (4)]

Requirements Pertaining to Request for Payment

The lender must request payment from the guarantor not later than 60 days after the lender determines that a borrower qualifies for loan forgiveness. If the lender requests payment later than 60 days after determining that a borrower qualifies for IBR forgiveness, the lender must repay all interest and **special allowance** received on the forgiven loan amount for periods after the expiration of the 60-day filing period. The lender is prohibited from collecting this interest from the borrower.

[§682.215(g)(1) and (2)]

¹. Policy 1285 (Batch 192), approved February 21, 2013

Borrower Notification Requirements

The lender determines when a borrower has met the requirements to become eligible for loan forgiveness. The borrower is not required to submit a request for loan forgiveness. No later than 6 months prior to the anticipated date that the borrower will meet the loan forgiveness requirements, the lender must send the borrower a written notice that includes all of the following:

- An explanation that the borrower is approaching the date that he or she is expected to meet the requirements to receive loan forgiveness.
- A reminder that the borrower must continue to make scheduled monthly payments.
- General information on the current treatment of the forgiveness amount for tax purposes, and instructions for the borrower to contact the Internal Revenue Service for more information.

The information required in the notice is based on the information available to the lender as of the date the lender sends the notice to the borrower.

[\[§682.215\(g\)\(1\); §685.221\(f\)\(5\)\(i\)-\(ii\)\]¹](#)

Within 30 days after notification by the guarantor that the borrower is eligible for IBR forgiveness, the lender must notify the borrower of the determination. The lender must also advise the borrower that the repayment obligation on the loan(s) for which IBR forgiveness was requested has been satisfied. The lender must also provide the borrower with information on the required processing of the amount forgiven. This includes information on the lender's understanding of the current tax treatment of the forgiven amount. The lender is also encouraged to refer the borrower to the Internal Revenue Service for additional information. [\[§682.215\(g\)\(4\); *Federal Register* dated October 23, 2008\]](#)

Processing an Approved Forgiveness

If the guarantor determines that a borrower is eligible for IBR forgiveness, the lender must apply the proceeds of the forgiveness amount to satisfy the outstanding balance on the loan(s) for which IBR forgiveness was requested. If the forgiveness amount exceeds the outstanding balance on the eligible loan(s), the lender must refund the excess amount to the guarantor. The lender must promptly return to the sender any payment received on a loan after the guarantor pays the lender the amount of loan forgiveness.

[\[§682.215\(g\)\(5\) and \(7\)\]](#)

Denying Forgiveness

If the guarantor determines that the borrower is not eligible for IBR forgiveness, the lender may grant an [administrative forbearance](#) from the date that the borrower's repayment obligation was suspended until a new payment due date is established. The lender may capitalize any accrued or unpaid interest at the end of the [forbearance](#), unless the denial of the request for payment resulted from a lender error.

[\[§682.215\(g\)\(6\)\]](#)

¹ Policy 1285 (Batch 192), approved February 21, 2013