

## Summary of Changes Approved through August 2016

This summary lists changes made since the 2015 Annual Update of the *Common Manual*. Following are the latest policy changes, which were approved June 16 and August 18, 2016. Changes made before the 2015 Annual Update are noted in Appendix H.

Common Manual Section	Description of Change	Effective Date/Triggering Event	Policy/Batch
Chapter 7: Loan Origination			
7.4.B Reduced Stafford Interest Rates	The <i>Common Manual</i> has been updated to reflect that lenders must grant eligible servicemembers (including borrowers, endorsers, and comakers) the SCRA interest rate reduction as of July 1, 2016, based on the lender’s comparison of its borrowers, endorsers, and comakers to the Department of Defense–maintained database, the Defense Manpower Data Center (DMDC). The lender may not require a servicemember to request an interest rate reduction in writing and must allow the servicemember to provide alternative evidence if the DMDC data is inaccurate or incomplete.	SCRA interest rate reductions made on or after July 1, 2016	1309/204
7.5.B Reduced PLUS Interest Rates			
Chapter 10: Loan Servicing			
10.9.B Reduced Interest Rates	The <i>Common Manual</i> has been updated to reflect that lenders must grant eligible servicemembers (including borrowers, endorsers, and comakers) the SCRA interest rate reduction as of July 1, 2016, based on the lender’s comparison of its borrowers, endorsers, and comakers to the Department of Defense–maintained database, the Defense Manpower Data Center (DMDC). The lender may not require a servicemember to request an interest rate reduction in writing and must allow the servicemember to provide alternative evidence if the DMDC data is inaccurate or incomplete.	SCRA interest rate reductions made on or after July 1, 2016	1309/204
Chapter 13: Claim Filing, Discharge, and Forgiveness			
13.1.D Claim File Documentation	The <i>Common Manual</i> has been updated to reflect that lenders must grant eligible servicemembers (including borrowers, endorsers, and comakers) the SCRA interest rate reduction as of July 1, 2016, based on the lender’s comparison of its borrowers, endorsers, and comakers to the Department of Defense–maintained database, the Defense Manpower Data Center (DMDC). The lender may not require a servicemember to request an interest rate reduction in writing and must allow the servicemember to provide alternative evidence if the DMDC data is inaccurate or incomplete.	SCRA interest rate reductions made on or after July 1, 2016	1309/204
13.1.D Claim File Documentation	The <i>Common Manual</i> has been updated to correct errors in the claim documentation references for Bankruptcy, Death, and Total and Permanent Disability claims.	Claims filed by the lender on or after March 1, 2012	1310/204
13.7 Rehabilitation of Defaulted FFELP Loans	<i>Common Manual</i> text has been revised to remove language that dictates guarantor requirements regarding rehabilitation of defaulted FFELP loans.		1311/205

Common Manual Section	Description of Change	Effective Date/Triggering Event	Policy/Batch
<b>Chapter 15: Federal Consolidation Loans</b>			
15.3.D Calculating the Interest Rate	The <i>Common Manual</i> has been updated to reflect that lenders must grant eligible servicemembers (including borrowers, endorsers, and comakers) the SCRA interest rate reduction as of July 1, 2016, based on the lender's comparison of its borrowers, endorsers, and comakers to the Department of Defense–maintained database, the Defense Manpower Data Center (DMDC). The lender may not require a servicemember to request an interest rate reduction in writing and must allow the servicemember to provide alternative evidence if the DMDC data is inaccurate or incomplete.	SCRA interest rate reductions made on or after July 1, 2016	1309/204

- Determining the correct interest rate applicable to the loan (see [Section 7.4](#)).  
[DCL GEN-98-25; DCL GEN-99-9]

## 7.4

### Establishing Stafford Loan Interest Rates

The Stafford loan interest rate varies, based on the date the loan was first disbursed. In addition, a Stafford loan made to a borrower who subsequently enters qualifying military service may be eligible for a reduced interest rate. See [Subsections 7.4.B](#) and [10.9.B](#) for more information.

#### 7.4.A

##### Current Stafford Interest Rates

The interest rate on all Stafford loans first disbursed on or after July 1, 2006, is a fixed rate of 6.8% for the life of the loan, except for subsidized Stafford loans made to undergraduate borrowers and first disbursed as follows:

- On or after July 1, 2008, and before July 1, 2009, the interest rate is 6%.
- On or after July 1, 2009, and before July 1, 2010, the interest rate is 5.6%.
- On or after July 1, 2010, and before July 1, 2011, the interest rate is 4.5%.
- On or after July 1, 2011, and before July 1, 2012, the interest rate is 3.4%.

[§682.202(a)(1)(ix) and (x)]

Interest rates applicable to Stafford loans first disbursed on or after July 1, 2006, are listed in [Figure 7-1](#).

#### 7.4.B

##### Reduced Stafford Interest Rates

The [Higher Education Act of 1965](#), as amended, extends certain provisions of the [Servicemembers Civil Relief Act \(SCRA\)](#) to FFELP loans made before an eligible borrower entered qualifying military service. If a Stafford loan borrower qualifies under Section 207 of the SCRA, the lender is required to reduce the interest rate on any loan that is accruing interest at a higher rate, so that it does not charge the borrower an interest rate that exceeds 6% for the period of the borrower's military service that occurs on or after August 14, 2008. The lower interest rate provision applies

to any loan obtained by an eligible servicemember. [HEA §428(d); §682.202(a)(8); *Federal Register* dated July 23, 2009, p. 36565; DCL GEN-08-12/FP-08-10]

For purposes of this provision, the maximum interest rate must take into consideration any amount of service charges, renewal charges, fees, or any other charges (except for actual insurance) with respect to the Stafford loan. The lender must use the official Department of Defense electronic database, the Defense Manpower Data Center (DMDC), to identify all Stafford borrowers who are performing SCRA-eligible military service, and confirm the beginning and ending dates of the eligible service. The lender must:

- Compare all of its borrowers against the DMDC database at least monthly to accurately identify borrowers eligible for the SCRA interest rate reduction.
- Charge eligible borrowers interest of no more than 6% during periods of eligible service. This may include beginning, extending, or ending the borrower's period of eligibility based on new start or end date information.
- For each reservist and Guard member, use the Order Notification Start Date.
- Send written notification of the interest rate reduction to the borrower within 30 days of changing the interest rate.  
[§682.208(j)(1)–(2) and (4)–(5)]

The lender may not require the borrower must request the reduced interest rate in writing and provide the lender with a copy of initial military orders and any orders that extend his or her military service. The borrower must provide the request and documentation not later than 180 days following the last date of the borrower's military service. must accept alternative evidence from the borrower of his or her military service that indicates the information in the DMDC is inaccurate or incomplete. The borrower may present alternative evidence at any time during or after the qualified military service. Acceptable alternative evidence includes one of the following:

- A copy of military orders.
- A certification of the borrower's service by an authorized official on a Department of Education–approved form.  
[§682.208(j)(3)]<sup>1</sup>

<sup>1</sup> Policy 1309 (Batch 204), approved June 16, 2016

If the lender determines that the DMDC information does not match the acceptable alternative evidence provided, the lender must apply the interest rate reduction for the longest period for which the borrower is eligible using the earliest start date and latest end date provided by a combination of the DMDC data and the acceptable alternative evidence.

For a reservist or Guard member, the lender must use the order notification date as the start date of the military service period.

[HEA §428(d); DCL GEN-08-12/FP-08-10; §682.208(j)(4)]<sup>1</sup>

When the borrower's period of military service ends, the lender is not permitted to assess any additional charge or fee to compensate for the difference between the applicable interest rate and the maximum permissible charges under the SCRA.

[*Federal Register* dated July 23, 2009, p. 36565]

Also, a lender may choose to charge a borrower an interest rate that is lower than the maximum interest rate permitted by statute (the statutory rate). If the lender charges a lower rate, the lender must ensure that reports issued to the Department (such as the [Lender's Interest and Special Allowance Request and Report](#) [LaRS report]) are adjusted. See [Appendix A](#) for more information on LaRS reporting.

If a lender chooses to charge a lower interest rate, it must notify the borrower, at the time a lower interest rate is offered, that the lower interest rate ends on the date a [default](#) or [ineligible borrower claim](#) is purchased by the [guarantor](#). 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 lender may provide this information in any format. [Documentation](#) of the notice must be maintained in the borrower's file. A lender is encouraged to include this documentation (showing that the borrower was informed that the lower interest rate expires upon claim purchase) with default and ineligible borrower claim files. The lender will be required to provide this documentation if a borrower challenges the guarantor or the Department for charging the applicable statutory maximum interest rate during postclaim interest accrual. If the issue goes to court and the decision is in favor of the borrower such that the loan is unenforceable at the statutory maximum interest rate, the lender will be required to [repurchase](#) the loan and the [guarantee](#) will be withdrawn permanently. The lender may be required to reimburse the guarantor for any court costs or court-imposed fines or penalties.

## 7.4.C

### Previous Stafford Interest Rates

Interest rates applicable to Stafford loans first disbursed before July 1, 2006, are listed in [Figure 7-1](#).

The interest rate on all Stafford loans first disbursed on or after July 1, 1994, through June 30, 2006, is a variable rate not to exceed 8.25%. The [variable interest rate](#) is adjusted annually on July 1, and remains in effect through June 30 of the following year. (Refer to [Figure 7-1](#) for information on the calculation of the [applicable interest rates](#).)

[HEA §427A(f); HEA §427A(g); HEA §427A(j)(1) and (2); HEA §427A(k)(1) and (2)]

The interest rate on any Stafford loan first disbursed before July 1, 1994, was based on whether the borrower was a "[new borrower](#)." For purposes of FFELP loans, a "new borrower" is any borrower who had no outstanding balance on a FFELP loan on the date he or she signed the [promissory note](#) for a FFELP loan. For loans disbursed before July 1, 1994, if the borrower had an outstanding balance on a Stafford loan on the date the borrower signed the application and promissory note, the borrower's new loan carried the same interest rate as the outstanding loans.

Some fixed-rate Stafford loans have been converted to variable interest rates in accordance with [excess interest rebate](#) provisions of the Higher Education Amendments of 1986 and the Higher Education Amendments of 1992. For more information on these provisions, see [Section H.2](#).

## 7.4.D

### Resolving Interest Rate Discrepancies on Stafford Loans

If a [lender](#) learns that a Stafford loan has been made at an incorrect [interest](#) rate, the lender must notify the [borrower](#), [guarantor](#), and the [Department](#), as appropriate, of the correct rate. The borrower must be notified of a change resulting in an increased rate. The lender may note the change by marking and initialing the [guarantee disclosure](#) or by sending a separate notice to the borrower. The guarantor may provide the corrected notice to the borrower on the lender's behalf. In some [states](#), the law requires that the borrower sign a new [promissory note](#) reflecting the corrected rate.

- ▲ Lenders may contact individual guarantors for more information on resolving interest rate discrepancies. See [Section 1.5](#) for contact information.

<sup>1</sup> Policy 1309 (Batch 204), approved June 16, 2016

Regardless of whether the borrower agrees to the change, the lender is required to report the correct interest rate to the guarantor, in a format acceptable to the guarantor. Also, the lender must review its servicing [records](#) and ensure that

reports issued to the Department (such as the [Lender's Interest and Special Allowance Request and Report](#) [LaRS report]) are adjusted to reflect accruals at the corrected rate.

The lender must adjust a borrower's principal and interest amount owed if the borrower is entitled to a lower rate.

## Stafford Loan Interest Rates

Figure 7-1

Disbursement/Loan Period/Borrower Characteristics	Interest Rate
First disbursement on/after 7/1/06	Fixed interest rate of 6.8%
Subsidized Stafford loans made to undergraduate borrowers and first disbursed as follows:	
<ul style="list-style-type: none"> <li>On or after July 1, 2008, and before July 1, 2009</li> <li>On or after July 1, 2009, and before July 1, 2010</li> <li>On or after July 1, 2010, and before July 1, 2011</li> <li>On or after July 1, 2011, and before July 1, 2012</li> </ul>	<ul style="list-style-type: none"> <li>Fixed interest rate of 6%</li> <li>Fixed interest rate of 5.6%</li> <li>Fixed interest rate of 4.5%</li> <li>Fixed interest rate of 3.4%</li> </ul>
First disbursement on/after 7/1/98, but before 7/1/06	<p><i>In-school, grace, and deferment periods:</i> Variable interest rate—equal to the 91-day Treasury bill* rate plus 1.7%, not to exceed 8.25%</p> <p><i>Repayment and forbearance periods:</i> Variable interest rate—equal to the 91-day Treasury bill* rate plus 2.3%, not to exceed 8.25%</p>
First disbursement on/after 7/1/95 but before 7/1/98	<p><i>In-school, grace, and deferment periods:</i> Variable interest rate—equal to the 91-day Treasury bill* rate plus 2.5%, not to exceed 8.25%</p> <p><i>Repayment and forbearance periods:</i> Variable interest rate—equal to the 91-day Treasury bill* rate plus 3.1%, not to exceed 8.25%</p>
First disbursement on/after 7/1/94 but before 7/1/95 for periods of enrollment that include or begin on/after 7/1/94	Variable interest rate—equal to the 91-day Treasury bill* rate plus 3.1%, not to exceed 8.25%
First disbursement on/after 12/20/93 but before 7/1/94 to a borrower with an outstanding PLUS, SLS, or Consolidation loan, but not a Stafford loan	Variable interest rate—equal to the 91-day Treasury bill* rate plus 3.1%, not to exceed 9%
First disbursement on/after 10/1/92 but before 7/1/94 to a “new borrower” with no outstanding FFELP loans	Variable interest rate—equal to the 91-day Treasury bill* rate plus 3.1%, not to exceed 9%
First disbursement on/after 10/1/92 but before 12/20/93 to a borrower with an outstanding PLUS, SLS, or Consolidation loan, but not a Stafford loan	Original fixed interest rate of 8%. These loans were subject to excess interest rebates and converted to a variable interest rate—equal to the 91-day Treasury bill* rate plus 3.1%, not to exceed 8%.
First disbursement on/after 7/23/92 but prior 7/1/94 to a borrower with an outstanding 7%, 8%, 9%, or 8%/10% Stafford loan	Original interest rate was the same as on the borrower's previous Stafford loans (i.e., a fixed rate of 7%, 8%, 9%, or 8%/10%). These loans were subject to excess interest rebates and converted to a variable interest rate—equal to the 91-day Treasury bill* rate plus 3.1%, with a cap equal to the loan's previous fixed rate (i.e., 7%, 8%, 9%, or 10%).
First disbursement before 10/1/92 for a period of enrollment beginning on/after 7/1/88 to a “new borrower” or a borrower who has an outstanding balance on a PLUS, SLS, or Consolidation loan, but not a Stafford loan	Original interest rate of 8% until 48 months of the repayment period have elapsed and 10% thereafter. These loans were subject to excess interest rebates and must be or have been converted to a variable interest rate—equal to the 91-day Treasury bill* rate plus 3.25%, not to exceed 10%.

Disbursement/Loan Period/Borrower Characteristics	Interest Rate
First disbursement to a borrower with an outstanding balance on a PLUS, SLS, or Consolidation loan, but not a Stafford loan, for a period of enrollment before 7/1/88	Fixed interest rate of 8%.
First disbursement to a "new borrower" for a period of enrollment on/ after 9/13/83 but before 7/1/88	Fixed interest rate of 8%
First disbursement to a "new borrower" for a period of enrollment on/ after 1/1/81 but before 9/13/83	Fixed interest rate of 9%
First disbursement to a "new borrower" for a period of enrollment before 1/1/81	Fixed interest rate of 7%

\*Based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1. All variable interest rates are adjusted annually on July 1.

## 7.5 Establishing PLUS Loan and SLS Loan Interest Rates

*Previous interest rates applicable to SLS loans are included in this section for lenders that are servicing these loans.*

The PLUS or SLS loan interest rate varies, based on the date the loan was first disbursed. In addition, a PLUS or SLS loan made to a borrower who subsequently enters qualifying military service may be eligible for a reduced interest rate. See [Subsection 7.5.B](#) for more information.

### 7.5.A Current PLUS Interest Rate

The initial interest rate for each PLUS loan is determined by the date the loan is first disbursed.

A loan that is first disbursed on or after July 1, 2006, has a fixed interest rate of 8.5% throughout the life of the loan. [[§682.202\(a\)\(2\)\(vii\)](#)]

A loan that is first disbursed on or after July 1, 1998, but before July 1, 2006, has a [variable interest rate](#), not to exceed 9%. The variable interest rate is adjusted annually on July 1. The variable interest rate for each July 1 to June 30 period is calculated by adding 3.1% to the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1. [[HEA §427A\(j\)\(3\)](#); [HEA §427A\(k\)\(3\)](#) and [\(l\)\(2\)](#); [§682.202\(a\)\(2\)\(v\)](#)]

### 7.5.B Reduced PLUS Interest Rates

The [Higher Education Act of 1965, as amended](#), extends certain provisions of the [Servicemembers Civil Relief Act \(SCRA\)](#) to FFELP loans made before the eligible borrower entered qualifying military service. If a PLUS loan borrower qualifies under Section 207 of the SCRA, the lender is required to reduce the interest rate on any loan that is accruing interest at a higher rate, so that it does not charge the borrower an interest rate that exceeds 6% for the period of the borrower's military service that occurs on or after August 14, 2008. The lower interest rate provision applies to any loan obtained by an eligible servicemember, including a loan on which the servicemember is a [comaker](#), or for which the servicemember is an [endorser](#). A PLUS loan made with an endorser who is an eligible servicemember is eligible for the lower interest rate if the servicemember signed the PLUS MPN Endorser Addendum before the start date of his or her qualifying military service.

[[HEA §428\(d\)](#); [§682.202\(a\)\(8\)](#); [Federal Register](#) dated July 23, 2009, p. 36565; [DCL GEN-08-12/FP-08-10](#)]

For purposes of this provision, the maximum interest rate must take into consideration any amount of service charges, renewal charges, fees, or any other charges (except for actual insurance) with respect to the PLUS loan. The 6% rate applies to any PLUS loan on which the servicemember is the only borrower, on any joint obligation where one borrower or both borrowers of the comade PLUS loan qualify as the servicemember, or any loan on which the servicemember is the endorser. The 6% rate does not apply to a Parent PLUS loan when only the dependent student for whom the loan was obtained is the servicemember.<sup>1</sup> ~~The~~

<sup>1</sup>. Policy 1309 (Batch 204), approved June 16, 2016

borrower or eligible endorser must request the lower interest rate in writing and provide the lender with a copy of initial military orders and any orders that extend his or her military service. The servicemember must provide the request and documentation not later than 180 days following the last date of applicable military service.

The lender must use the official Department of Defense electronic database, the Defense Manpower Data Center (DMDC), to identify all PLUS borrowers or endorsers who are performing SCRA-eligible military service, and confirm the beginning and ending dates of the eligible service. The lender must:

- Compare all of its borrowers or endorsers against the DMDC database at least monthly to accurately identify borrowers eligible for the SCRA interest rate reduction.
- Charge eligible borrowers or endorsers interest of no more than 6% during periods of eligible service. This may include beginning, extending, or ending the borrower's or endorser's period of eligibility based on new start or end date information.
- For each reservist and Guard member, use the Order Notification Start Date.
- Send written notification of the interest rate reduction to the borrower or endorser within 30 days of changing the interest rate.  
[HEA §428(d); HEA §438(g); DCL GEN-08-12; §682.208(j)(1)–(2) and (4)–(5)]

The lender may not require the borrower to request the reduced interest rate in writing and must accept alternative evidence from the borrower or endorser of his or her military service that indicates the information in the DMDC is inaccurate or incomplete. The alternative evidence may be presented at any time during or after the qualified military service. Acceptable alternative evidence includes one of the following:

- A copy of military orders.
- A certification of the borrower's or endorser's service by an authorized official on a Department of Education approved form.  
[§682.208(j)(3)]

If the lender determines that the DMDC information does not match the acceptable alternative evidence provided, the lender must apply the interest rate reduction for the longest period for which the borrower or endorser is eligible using

the earliest start date and latest end date provided by a combination of the DMDC and the acceptable alternative evidence. For a reservist or Guard member, the lender must use the order notification date as the start date of the military service period.

[HEA §428(d); DCL GEN-08-12/FP-08-10; §682.208(j)(4)]

For PLUS loans with an endorser, information must be compared to the DMDC database at least monthly, and the interest rate reduction must be applied based on an endorser performing eligible military service. If the PLUS loan borrower and endorser are both eligible for the SCRA interest rate reduction, and their military service periods overlap, the earliest start date from either party and the latest end date from either party must be used to give the longest eligible period of interest rate reduction possible.  
[§682.208(j)(6)]<sup>1</sup>

When the borrower's, comaker's, or endorser's period of military service ends, the lender is not permitted to assess any additional charge or fee on the loan to compensate for the difference between the applicable interest rate and the maximum permissible charges under the SCRA.  
[Federal Register dated July 23, 2009, p. 36565]

Also, a lender may choose to charge a borrower an interest rate that is lower than the maximum interest rate permitted by statute (the statutory rate). If the lender charges a lower rate, the lender must ensure that reports issued to the Department (such as the [Lender's Interest and Special Allowance Request and Report](#) [LaRS report]) are adjusted. See [Appendix A](#) for more information on LaRS reporting.

If a lender chooses to charge a lower interest rate, it must notify the borrower, at the time a lower interest rate is offered, that the lower interest rate ends on the date a [default or ineligible borrower claim](#) is purchased by the [guarantor](#). 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 lender may provide this information in any format. [Documentation](#) of the notice must be maintained in the borrower's file. A lender is encouraged to include this documentation (showing that the borrower was informed that the lower interest rate expires upon [claim](#) purchase) with default and ineligible borrower claim files. The lender will be required to provide this documentation if a borrower challenges the guarantor or the Department for charging the applicable statutory maximum interest rate during postclaim interest accrual. If the issue goes to court and the decision is in favor of the borrower such that the loan is unenforceable at the statutory maximum interest rate, the lender will be required to

<sup>1</sup>. Policy 1309 (Batch 204), approved June 16, 2016

## 10.9 Interest Charges

If a borrower's loan is a subsidized Stafford loan, the federal government pays the interest that accrues during the [in-school](#), [grace](#), and authorized [deferment periods](#). If a borrower's monthly [partial financial hardship \(PFH\)](#) payment amount under an [income-based repayment \(IBR\) plan](#) is not sufficient to pay the interest accruing on a subsidized Stafford loan, the Department pays the accrued interest that exceeds the scheduled monthly PFH payment amount during a consecutive 3-year period beginning with the [repayment period start date](#) when each loan enters IBR. This 3-year period excludes any period during which the borrower receives an [economic hardship](#) deferment. [[§682.215\(b\)\(4\)](#); [§685.221\(b\)\(3\)](#)]

If the loan is an unsubsidized or a nonsubsidized Stafford loan, a PLUS loan, or an SLS loan, the borrower is responsible for paying all interest that accrues on the loan from the first [disbursement date](#)—including interest that accrues during deferment periods. For information on the interest charges applicable to Consolidation loans, see [Subsection 15.3.D](#) and [Section 15.6](#). [[§682.202](#); [§682.300](#)]

### 10.9.A Annual Variable Interest Rate Charges

When servicing a variable-rate Stafford, SLS, or PLUS loan, a lender must adjust the interest rate annually on July 1 in accordance with interest rates established by the [Department](#). The [variable interest rate](#) for a loan is based on the type of loan and the disbursement date. For more information on how a loan's variable interest rate is determined, see [Sections 7.4](#) and [7.5](#).

The adjustment to the variable interest rate on a loan may affect the monthly payment amount and the borrower's overall repayment terms. Refer to [Subsection 10.6.E](#) for more information on adjusting the borrower's repayment terms.

[Guarantors](#) recommend that the [lender](#) inform the [borrower](#) of the [variable interest rate](#) change. The lender must inform the borrower of any changes in the payment amount.

For more information on current and past variable interest rates, refer to [Appendix H](#).

## 10.9.B Reduced Interest Rates

On at least a monthly basis, lenders are required to use the Defense Manpower Data Center (DMDC), the official Department of Defense database, to identify all ~~if the~~ borrowers, endorsers, and comakers who qualify for reduced interest rate benefits under Section 207 of the Servicemembers Civil Relief Act (SCRA). The lender ~~and requests an interest rate reduction in writing, the lender is~~ required to reduce the interest rate on any loan that is accruing interest at a higher rate, so that it does not charge the borrower an interest rate that exceeds 6% for the period of the borrower's qualifying military service that occurs on or after August 14, 2008. [[§682.208\(j\)\(1\) and \(2\)](#)]

For purposes of this provision, interest includes service charges, renewal charges, fees, or any other charges (except for actual insurance) with respect to the loan. A borrower, endorser, or comaker may qualify for the 6% rate if all of the following criteria are met:

- The borrower has an outstanding Stafford, PLUS, or Consolidation loan that was made prior to the date that the servicemember entered active duty military service.
- The borrower, comaker, or endorser is an eligible servicemember.
- The borrower is the only borrower, a [comaker](#) on the loan, or an [endorser](#) on an outstanding PLUS loan.
- The borrower's eligible military service period can be determined by the lender through accessing the DMDC, reviewing a copy of the borrower's military orders or receiving a Department of Education–approved form that includes a certification of the borrower's service by an authorized official. [[§682.208\(j\)\(1\) and \(2\)](#)]
- ~~The borrower, comaker, or endorser requests the reduced interest rate in writing and provides to the lender a copy of his or her initial military orders and any orders that extend military service.~~
- ~~The borrower provides the written request and documentation not later than 180 days following the last date of the borrower's qualifying military service.~~<sup>1</sup>

<sup>1</sup>. Policy 1309 (Batch 204), approved June 16, 2016

For PLUS loan endorser and joint consolidation comakers, the endorser and comaker information must be compared to the DMDC database at least monthly, and the interest rate reduction must be applied based on an endorser or comaker performing eligible military service. If the PLUS loan borrower and endorser are both eligible for the SCRA interest rate reduction, and their military service periods overlap, the earliest start date from either party and the latest end date from either party must be used to give the longest eligible period of interest rate reduction possible. The same logic should be applied to both comakers of joint consolidation loans.

The borrower may provide the lender alternative evidence of the eligible military service to demonstrate eligibility in the case that the DMDC information is inaccurate or incomplete at any time during and after the military service. Acceptable alternative evidence includes either of the following:

- A copy of the borrower's military orders.
- A certification of the borrower's, endorser's or comaker's service by an authorized official on a Department of Education approved form.  
[§682.208(j)(3)]<sup>1</sup>

The lower interest rate applies to an endorser if the endorser is an eligible servicemember who signed the PLUS MPN Endorser Addendum before the start date of his or her qualifying military service.  
[HEA §428(d); DCL GEN-08-12/FP-08-10]

When the borrower's, comaker's or endorser's period of military service ends, the lender is not permitted to assess any additional charge or fee on the loan to compensate for the difference between the applicable interest rate and the maximum permissible charges under the SCRA.  
[Federal Register dated July 23, 2009, p. 36565]

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

<sup>1</sup>. Policy 1309 (Batch 204), approved June 16, 2016

certifications when filing a claim in order to assign the loan. A lender using an electronic claim filing process should work directly with the guarantor to develop an accurate, timely assignment process that corresponds with the claim filed.

If the ownership of the loan was previously assigned to the current holder from another holder, the holder must document all prior assignments, as applicable, and the lender's assignment of the note to the guarantor. Each prior assignment may be stamped, typed, or written directly on the back of the note, or may be in the form of a letterhead assignment or otherwise through an agreement with the guarantor.

#### 4. *Out-of-School Date Information*

Documentation supporting the lender's [out-of-school date](#) must be included as part of the claim documentation *only* if the lender is aware that its out-of-school date is different from the out-of-school date on the guarantor's file.

#### 5. *Cure Documentation*

If the loan's [guarantee](#) is lost and subsequently reinstated, the lender must include in any claim filed subsequent to the [reinstatement](#) the [curing instrument](#) or a legible copy of the curing instrument. Examples of a curing instrument include a new repayment agreement signed by the borrower or a copy of a payment. In the case of an [intensive collection activities \(ICA\)/location cure](#), the claim file must include acceptable evidence that the borrower has been located as detailed in [Section 14.6](#). For additional information regarding acceptable documentation to show that an ICA/location cure has been completed, see [Section 14.6](#).

#### 6. *Reduced Interest Rate Documentation*

Documentation supporting the granting of a reduced interest rate under the Servicemembers Civil Relief Act if, at the time the lender files a claim with the guarantor, the borrower, [comaker](#), or [endorser](#) is receiving this benefit. This documentation must include the borrower's written request for the reduced interest rate and the applicable military orders, documents relevant to the dates for which the benefit was granted, including any one or, as applicable, any combination of the following:

- The Defense Manpower Data Center (DMDC) information identifying the servicemember's eligible service period beginning and ending dates.
- Copy of the servicemember's military orders.
- A certification of the borrower's, endorser's or comaker's service by an authorized official on a Department of Education–approved form.<sup>1</sup>

#### 7. *Bankruptcy Documentation*

If the lender filed any required document with the bankruptcy court, either manually or in an electronic format, it must include a printed copy of that document in any claim that it submits.

#### **Additional Documentation Requirements**

In addition to the general documentation requirements applicable to the claim being filed, the following special claim types require further documentation as outlined.<sup>2</sup>

##### *Closed School Claims, False Certification Claims, and Unpaid Refund Discharges*

Documentation requirements for closed school and false [certification](#) claims are outlined in [Subsections 13.8.B, 13.8.D, and 13.8.E](#). Documentation requirements for unpaid refund discharges are outlined in [Subsection 13.8.H](#).

For a false certification claim as a result of the crime of identity theft, the lender must also submit a completed FFELP Ineligible Borrower and Identity Theft Supplemental Form along with applicable documentation.

##### *Ineligible Borrower Claims*

For an [ineligible borrower](#) claim, the lender is required to submit only items 1 through 3 of the preceding list. The lender must also provide the month, day, and year the [final demand](#) letter was mailed and reasonable documentation supporting the borrower's ineligibility for the loan, such as an affidavit or letter from the school or a statement from the lender clearly stating the facts and allegations. Further, the lender is required to submit a completed FFELP Ineligible Borrower and Identity Theft Supplemental Form along with applicable documentation.

<sup>1</sup>. Policy 1309 (Batch 204), approved June 16, 2016

<sup>2</sup>. Policy 1310 (Batch 204), approved June 16, 2016

*Bankruptcy Claims*

For a [bankruptcy claim](#), the lender must submit—in addition to the preceding items 1 through 56—notification of the bankruptcy filing, such as the Notice of the First Meeting of Creditors (the Notice) or other proof of filing directly received from the borrower’s attorney, the bankruptcy court, or from another source; a copy of the Proof of Claim filed by the lender, if required; and all other pertinent documents sent to or received from the bankruptcy court. If the lender filed any required document with the bankruptcy court in an electronic format, it must include a printed copy of that document in any claim that it files.

[§682.402(f)(3); §682.402(g)(1)(v)(A)]

*Death Claims*

For a death [claim](#), the lender must submit—in addition to the preceding items 1 through 57—an original or certified copy, or an accurate and complete photocopy of the original or certified copy, of the death certificate (see [Subsection 13.8.C](#)). The use of a fax or electronic version of the death certificate is not permitted. In the event of an exceptional circumstance and on a case-by-case basis, the lender must submit other reliable documentation approved by the guarantor’s CEO.

[§682.402(b)(2); §682.402(g)(1)(iii); §685.212(a)(1)]

*Total and Permanent Disability Claims*

When the Department notifies the lender to file the TPD claim with the guarantor, the lender must submit the preceding items 1 through 62, and each of the following:<sup>1</sup>

- A copy of the Department’s notification to the lender that the borrower’s discharge application has been approved.
- A FFELP Assignment Support Supplemental Form (TPD-Specific worksheet) when filing a total and permanent disability claim that is not based on a determination by the Department of Veterans Affairs (VA). This form requires the lender to provide certain electronic signature and disbursement information. [§682.402(g)(1)(iv); the Department’s Mandatory Assignment Guidance dated July 2, 2009]

Some guarantors have additional or alternate requirements. These requirements are noted in [Appendix C](#).

## 13.1.E

### Missing Claim File Documentation

If a [lender](#) submits a [claim](#) file with any required [documentation](#) missing or incomplete, or if the [guarantor](#) determines that more information is needed to process the claim, the guarantor may attempt to obtain the necessary documentation or return the claim file to the lender with a request for the missing documentation.

To expedite the claim filing process and avoid the return of claim files to the lender, the guarantor may use a fax machine to request and receive missing information from lenders. The types of documentation that may be transmitted and received by fax include, but are not limited to, the [application](#), [promissory note](#), promissory note [assignment](#), specialty claim documentation, payment history information, [deferment](#) or [forbearance](#) documentation, and missing collection history. In the case of documentation where an original or true and exact copy, or an accurate and complete photocopy of the original or certified copy, may be required (such as the promissory note and death certificate), the lender may fax a copy of the document so that the guarantor can continue processing the claim. However, the lender must, within the time frame established by the guarantor, forward the original document—or a copy certified as true and exact, or an accurate and complete photocopy of the original or certified copy—to the guarantor to avoid a future claim return.

- ▲ Lenders may contact individual guarantors for information on faxing claim file documentation. See [Section 1.5](#) for contact information.

If a lender is unable to provide requested documentation, the loan may be subject to [interest](#) penalties or [due diligence](#) violations. If a lender is unable to provide accurate payment information, as required on the Claim Form, the [guarantee](#) on the loan may be canceled. However, the lender may attempt to have the loan’s guarantee reinstated in many cases by following the applicable [cure](#) procedures (see [Section 14.5](#)).

In some cases, an indemnification [agreement](#) will be accepted if a lender is unable to provide required documentation for claim filing.

- ▲ Lenders may contact individual guarantors for information on the use of indemnification agreements to substitute for documents required in the claim file. See [Section 1.5](#) for contact information.

<sup>1</sup> Policy 1310 (Batch 204), approved June 16, 2016

eligible for rehabilitation.

[HEA §428F(a)(5); §682.405(a)(1); §685.211(f); *Federal Register* dated October 29, 2009, p. 55979; DCL GEN-08-12/FP-08-10]

- ▲ Contact the guarantor for information about its rehabilitation program. See [Section 1.5](#) for contact information.

To rehabilitate a FFELP loan, a borrower must make nine, on-time (i.e., received within 20 days of the due date), full monthly payments to the guarantor or its contracted vendor during a period of 10 consecutive months. Payments must be made voluntarily by the borrower and must be equal to or greater than the amount determined to be reasonable and affordable. Payments obtained by state offsets or federal Treasury offsets, wage garnishment, trustee payments, or income or asset execution will not satisfy requirements for rehabilitation.

[HEA §428F(a)(1)(A); §682.405(a)(2); §685.211(f)(8)]

~~See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.~~

~~The nine payments must be received during the 10-month period immediately preceding the rehabilitation of the defaulted loan. Payments will be considered voluntary if made directly by the borrower. A lump sum prepayment of future installments cannot be used to satisfy the requirement that the borrower make nine payments during a period of 10 consecutive months. If the borrower fails to send nine payments on time during the 10-month period in which payments are required for rehabilitation, he or she must begin the entire cycle again. A new cycle will begin from the time a new, on time, voluntary, reasonable and affordable payment is received—regardless of any prepayments of future installments the borrower may have made.~~

~~The guarantor will make the determination of what constitutes a reasonable and affordable payment based on each borrower's financial circumstances. Factors to be considered include the borrower's monthly income (and that of his or her spouse, if applicable), the monthly expenses of the borrower and any spouse or dependents, and the unpaid balance on all FFELP loans held by other holders.~~

~~A guarantor will assist a borrower in securing the purchase of each defaulted loan by an eligible lender only after:~~

- ▲ ~~The borrower satisfies his or her obligation to make nine payments during a period of 10 consecutive months, as prescribed above.~~
- ▲ ~~The borrower authorizes the guarantor to capitalize collection costs.~~
- ▲ ~~The borrower requests assistance in obtaining a rehabilitation repurchase.~~

~~If the guarantor is unable to secure a lender, the borrower will be responsible for obtaining an eligible lender to purchase his or her defaulted loan(s).~~

A FFELP loan is rehabilitated only after the borrower has made the required payments and the loan is sold to a lender or assigned to ED.<sup>1</sup>

Within 30 days of receiving notification of the rehabilitation from the guarantor, the prior holder of the loan must request that any [nationwide consumer reporting agency](#) to which the default status or other equivalent record was reported, remove the default status or other equivalent record from the borrower's credit history. [HEA §428F(a)(1)(A); §682.405(a); §682.405(b)(3)(ii); §685.211(f)(8); DCL GEN-08-12/FP-08-10]

- ▲ Contact the guarantor for information about its process for lender notification of a rehabilitated loan. See [Section 1.5](#) for contact information.

A lender that purchases a rehabilitated loan must immediately establish a repayment period with the borrower that meets the requirements applicable to other FFELP loans of the same type as the rehabilitated loan, and must allow the borrower to choose any repayment schedule that is available for that loan type. The lender must permit the borrower to choose any [repayment schedule](#) available, including the [income-based repayment \(IBR\) plan](#). The schedule must be sent to the borrower no more than 60 days, and the first payment due date must be no more than 75 days after the lender considers the repurchase to be complete (e.g., the date the repurchase check is sent to the guarantor, the date the lender receives the loan file from the guarantor, or the date the lender receives collateral from the guarantor).

[§682.405(b)(4)]

<sup>1</sup>. Policy 1311 (Batch 205), approved August 18, 2016

Except for under IBR, the lender must consider the first payment made under the nine monthly payments required for rehabilitation as the first payment under the applicable maximum [repayment period](#) for the loan type. For example, a Stafford loan borrower with a 10-year maximum repayment period would have 9 years and 3 months remaining, because the nine monthly payments are considered the first 9 months of the repayment period. For another example, a Consolidation loan borrower with a balance greater than \$60,000 and a 30-year maximum repayment period would have 29 years and 3 months remaining, because the nine monthly payments are considered the first 9 months of the repayment period. Under IBR, the nine monthly payments under a rehabilitation plan are considered payments on a defaulted loan and, therefore, are not qualifying payments toward the 25-year IBR forgiveness period. If a borrower was repaying under IBR before default and if the borrower qualifies for [partial financial hardship \(PFH\)](#) after rehabilitation, the rehabilitated loan may return to IBR and would resume the 25-year period; i.e. only pre-default payments plus the payments made after [rehabilitation](#) are considered qualifying payments toward IBR [forgiveness](#).  
[§682.405(b)(4); §682.215(f)(5)]

When establishing the maximum repayment period on a rehabilitated Consolidation loan, the lender must use the loan's balance at the time the loan is rehabilitated (i.e., the amount paid to the guarantor to purchase the loan).  
[§682.405(b)(4)]

| The ~~purchasing lender guarantor~~ will ~~receive provide~~ payment history information (such as payment amounts and dates when the loan was in a default status) with the loan documentation ~~sent to the purchasing lender~~ to assist in the accurate conversion to repayment. A rehabilitated loan retains the same [interest](#) rate and [deferment](#) provisions that were applicable when the loan was first disbursed and repayment terms and all other benefits applicable to other FFELP loans made under the same loan type.  
[§682.405]<sup>1</sup>

The borrower regains eligibility for deferment only to the extent that he or she has not already exhausted those deferment privileges before his or her initial default. For example, a borrower who was initially eligible for 24 months of unemployment deferment, and who used 12 months of that eligibility before his or her default, would be eligible to defer the rehabilitated loan for only 12 months due to any future unemployed status.

| <sup>1</sup> Policy 1311 (Batch 205), approved August 18, 2016

## 13.8 Discharge

A loan [discharge](#) is a release of a borrower's or any comaker's obligation to repay his or her loan, either in whole or in part. There are several circumstances under which a borrower's or comaker's loan may be discharged. Each of these circumstances and its corresponding borrower eligibility criteria are outlined in this section. In certain circumstances, a lender that discharges all or a portion of an eligible borrower's loan may be reimbursed by the [guarantor](#) by filing a [claim](#). For information about claim filing procedures, see [Section 13.1](#).

### Partial Discharge of a Consolidation Loan

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

- ▲ Lenders may contact the guarantor of the Consolidation loan for information on how to file the request for partial discharge.

### Request for Reimbursement Due to Partial Discharge of a Federal Consolidation Loan Form

The Request for Reimbursement Due to Partial Discharge of a Federal Consolidation Loan form is designed to be used by a lender to request a partial discharge of the Consolidation loan for the portion that represents any underlying loans that are eligible for discharge due to disability (only for comade Consolidation loans), closed school, death, or false certification discharge.

*Request for Reimbursement Due to Partial Discharge of a Federal Consolidation Loan Form Instructions*

[Figure 13-3](#) will help lenders determine what information must be provided on the Request for Reimbursement Due to Partial Discharge of a Federal Consolidation Loan form. Detailed descriptions of these items are located in the Instructions for Reimbursement Due to Partial Discharge of a Federal Consolidation Loan form.

## Calculating the Weighted-Average Interest Rate

With the exception of any outstanding balance representing a HEAL loan, the outstanding balance of all eligible loans to be consolidated are included in the weighted-average interest rate calculation. A weighted-average interest rate is calculated as follows:

*The following exemplifies a weighted-average interest rate calculation for a loan application received by the lender on or after October 1, 1998:*

[§682.202(a)(4)(iv)]

### Step 1

Multiply the outstanding balance of each loan to be consolidated by that loan's current interest rate. A variable rate loan should be included in the calculation at the rate at which it is currently accruing.

Example: Outstanding loan balances are \$3,500, \$3,200, and \$5,500 respectively—for a total of \$12,200. The current interest rates for the loans are 7%, 5%, and 9%, respectively.

$$\$3,500 \times .07 = \$245$$

$$\$3,200 \times .05 = \$160$$

$$\$5,500 \times .09 = \$495$$

### Step 2

Add the results of all calculations made under *Step 1*. Then divide this sum by the outstanding balance of all loans being consolidated.

Example:  $\$245 + \$160 + \$495 = \$900$   
 $\$900 \div \$12,200 = .07377$  or 7.377%

### Step 3

Round the result of *Step 2* up to the nearest one-eighth of one percent, not to exceed 8.25%.

Example: 7.377% is rounded up to 7.5%

If a Consolidation loan borrower or comaker of a joint consolidation loan is performing or has performed qualifying military service under Section 207 of the Servicemembers Civil Relief Act (SCRA) ~~and requests a lower interest rate in writing~~, the lender ~~must~~ is required to reduce the interest rate on any loan that is accruing interest at a higher rate so that it does not charge the borrower or comaker an interest rate that exceeds 6% for the period of the borrower's qualifying military service occurring on or after August 14, 2008. The borrower is not required ~~must~~ to provide the lender with a copy of ~~initial military orders and~~ or any orders that extend his or her military service not later than 180 days following the last date of the applicable

~~period of military service.~~ The lender must use the official Department of Defense–maintained database, the Defense Manpower Data Center (DMDC), to identify all borrowers, endorsers, or comakers who are performing eligible military service for this interest rate reduction. The Consolidation loan must have been made before the eligible borrower entered qualifying military service. The loan is considered “made” for this purpose on the date that the Consolidation loan itself was disbursed, and not the dates on which the underlying loans were disbursed. [HEA §428(d); HEA §438; DCL GEN-08-12/FP-08-10; *Federal Register* dated July 23, 2009, p. 36565; §682.208(j)(1) and (2)]

When the borrower's or comaker's period of military service ends, the lender is not permitted to assess any additional charge or fee to compensate for the difference between the applicable interest rate and the maximum permissible charges under the SCRA.

[*Federal Register* dated July 23, 2009, p. 36565]

For joint consolidation comakers, the comaker information must be compared to the DMDC database at least monthly, and the interest rate reduction must be applied based on a comaker performing eligible military service. If both joint consolidation comakers are eligible for the SCRA interest rate reduction, and their military service periods overlap, the earliest start date from either party and the latest end date from either party must be used to give the longest eligible period of interest rate reduction possible.

[§682.208(j)(1) and (2)]

For purposes of this provision, the maximum interest rate must take into consideration any amount of service charges, renewal charges, fees, or any other charges (except for actual insurance) with respect to the Consolidation loan. The 6%-rate is applicable to any Consolidation loan on which the servicemember is the only borrower or on any joint obligation where one borrower or each of the borrowers on a comade (spousal) Consolidation loan qualifies as an eligible servicemember. The borrower ~~may~~ must provide the lender alternative evidence if the DMDC information is inaccurate or incomplete at any time during or after the completion of the military service by providing a copy of the his/her military orders or having an authorized official certify the military service time period on a Department of Education–approved form ~~request the reduced rate in writing and provide to the lender a copy of initial military orders and any orders that extend his or her military service. The borrower must provide the request and documentation not later than 180 days following the last date of the borrower's military service.~~<sup>1</sup> See Subsection 10.9.B for more details regarding the parameters for

<sup>1</sup> Policy 1309 (Batch 204), approved June 16, 2016

granting the reduced interest rate.

[HEA §428(d); DCL GEN-08-12/FP-08-10; §682.208(j)(3)]<sup>1</sup>

Also, a **lender** may choose to charge a **borrower** an interest rate that is lower than the maximum interest rate permitted by statute (the statutory rate). If the lender charges the lower rate, the lender must ensure that reports issued to the **Department** (such as the **Lender's Interest and Special Allowance Request and Report** [LaRS report]) are adjusted. See **Appendix A** for more information on LaRS reporting. [§682.202(a)(5)]

If a lender chooses to charge a lower interest rate, it must notify the borrower, at the time a lower interest rate is offered, that the lower-rate interest ends on the date a **default** or **ineligible borrower claim** is purchased by the **guarantor**. 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 lender may provide this information in any format. **Documentation** of the notice must be maintained in the borrower's file. A lender is encouraged to include this documentation (showing that the borrower was informed that the lower interest rate expires upon claim purchase) with default and ineligible borrower claim files. The lender will be required to provide this documentation if a borrower challenges the guarantor or the Department for charging the applicable statutory maximum interest rate during postclaim interest accrual. If the issue goes to court and the decision is in favor of the borrower such that the loan is unenforceable at the statutory maximum interest rate, the lender will be required to **repurchase** the loan and the **guarantee** will be withdrawn permanently. The lender may be required to reimburse the guarantor for any court costs or court-imposed fines or penalties.

## 15.4 Disbursement

Upon receiving the borrower's signed **application** and **promissory note** and completed loan verification certificates (LVCs) from the **holder(s)** of all the loans to be consolidated and prior to making any payments to the holders of the underlying loans, the lender must notify a borrower of his or her option to cancel a Consolidation loan. The lender must also provide the borrower a deadline of at least 10 days from the date of the notice to notify the lender that he or she wishes to cancel the loan. If the lender does not receive the cancellation request from the borrower on or before the deadline, and the lender has received the necessary signed notes and LVCs, the lender may disburse

the Consolidation loan. In disbursing the loan, the consolidating lender must pay to each holder of a loan that is being consolidated the outstanding **principal balance** plus any accrued unpaid interest, **late charges** (as certified on the LVC), and **collection costs**, as applicable.

A Consolidation loan is considered to be disbursed on the date of the first individual or **master check**, payment advice, or noncash transfer that transfers **funds** from the consolidating lender to the holder of the loans to be consolidated. For funds disbursed by **EFT**, the Consolidation loan is considered disbursed on the first date that funds are transferred. If the loan funds for multiple underlying loans are disbursed on multiple days, including funds issued through the end of the 180-day add-on period, those **disbursements** are considered "subsequent disbursements." The loan's first **disbursement date**, or the application receipt date, is used to determine its terms and conditions.

The first **disbursement date** for the Consolidation loan, or the application receipt date, establishes the terms and conditions for every loan servicing record established under a single **promissory note** for the borrower. For loan **guarantee** purposes, the single Consolidation loan application and promissory note represents a single Consolidation loan. The lender must ensure that all servicing aspects for the multiple portions of the loan remain synchronized. Failure to establish and maintain a single **repayment schedule**, and a first and next payment due date, and to consistently apply **deferment**, **forbearance**, and loan **discharge** provisions may result in the loss of the entire loan's guarantee. (See **Subsection 14.1.E "Violations and Cures Associated with Unsynchronized Servicing of a Consolidation Loan with Multiple Loan Records."**)

Upon receiving sufficient proceeds from the consolidating lender, the holder of each loan being consolidated must promptly apply the proceeds to pay the borrower's obligation in full. If proceeds disbursed by the consolidating lender are not sufficient to pay a loan in full, the holder should contact the consolidating lender to resolve the discrepancy.

The **holder** of a loan that is paid in full by a Consolidation loan must promptly make the following notifications:

- Notify the consolidating lender that the consolidating funds were received and provide **certification** that the underlying loan has been paid in full. [§682.209(e)(5)]

<sup>1</sup>. Policy 1309 (Batch 204), approved June 16, 2016