

Policy Proposal Development

The Policy Committee currently has three policy proposal batches in varying stages of development, as follows:

- **Batch 157:** This batch of thirteen policy proposals was distributed for comment on January 9th with comments due January 30th. The Governing Board will consider the proposals from Batch 154 during its March 19th meeting. Two proposals from this batch – Policy 1092 and 1095 – were deferred for additional research based on the community comments received. These policy proposals will be sent to the Governing Board for consideration as part of Batch 159.
- **Batch 158:** This batch of thirteen policy proposals was distributed for comment on January 30th with comments due on February 20th. The Committee is currently analyzing comments received from the community and preparing comment responses, and plans to bring the proposals in this batch to the Governing Board for consideration during the Board's meeting on April 16, 2009.
- **Batch 159:** This batch of seventeen policy proposals was distributed for comment on February 20th with comments due on March 13th. Batch 159 is the final batch of policy proposals for the 2009 production year. Policy proposals from this batch will be referred to the Governing Board for consideration during the Board's meeting on April 16, 2009.

With the issuance of Batch 159, the Policy Committee has completed the majority of its list of policy proposals incorporating provisions of the Higher Education Opportunity Act (HEOA), recent regulatory changes, and other Department policy publications. Throughout its analysis process, the Committee has solicited feedback from community experts, including members of the NCHelp Program Regulations Committee. The feedback received indicates that there are two issues relating to the HEOA which require clarification from or other action by the Department before policy proposal development is appropriate. These issues are lender disclosures relating to income sensitive repayment and prohibited inducements/permitted activities regarding entrance counseling and whether a lender or guarantor can provide in-person entrance counseling on the school's behalf. These two issues are on the list of topics for Negotiated Rulemaking sessions with the Department. The Committee will monitor the outcome of those sessions for additional information regarding these pending issues. The Committee also deferred updating the Deferment Eligibility Chart with information relating to PLUS deferments until after the Department publishes the final, OMB-approved deferment form.

Proposal 1085

This policy proposal was distributed in Batch 156 and addresses the capitalization of PLUS loans. Based on the community comments the Committee received, this proposal was withdrawn from Batch 156 and moved to the Committee's considered log.

Other Projects

Now that the last batch of proposals for the year has been distributed, the Committee will be focusing on wrapping up its other administrative tasks to ensure the Manual is accurate. Since there were quite a few statutory and regulatory changes this year, the Committee is conducting another "Cite Sweep" of the Manual to review all citations for accuracy, and updating them as necessary. This project also encompasses reviewing references to the Federal Student Aid Handbook, as well as all section/subsection cross-references that are contained in the Manual.

The Committee has completed a project to enhance the History Appendix to include notations regarding pertinent federal publications, such as notations regarding *Dear Colleague Letters* and statutory amendments for the calendar years 2006 and 2008. These history updates will be considered by the Governing Board during its March 19th meeting. The descriptions of federal publications and activities for the calendar year 2007 were approved by the Governing Board as part of last year's history updates.

As the production of the Manual comes to a close, the Committee will begin proofing the final document sometime this spring.

Policy Committee Membership Update

On July 31, 2009, the terms of three voting Policy Committee members will expire. The Committee also still has one remaining vacancy for a voting member. A call for nominations was distributed to all Governing Board members on March 11th asking them to either extend the terms of the current members, or nominate new members to the Committee.

The Committee is pleased to announce that Carolyn Small (Iowa College Student Aid Commission) and Carol Egan (AES/PHEAA) will assume co-chairmanship of the Policy Committee beginning August 1, 2009. Carolyn has been on the Committee for about 10 years, and has served in the role as chair in the past. Carol has been on the PC for three years, and this will be her first term as chair.

Spring Face-to-Face Meeting

The Policy Committee is currently planning its next semi-annual face-to-face meeting which will be held this spring. The Committee plans to use this meeting to assess the Committee's potential workload, establish the goals for the 2010 production year, and train any new members. The Committee also plans to review its administrative activities, and engage in team-building exercises.

Policy Committee Communications

All correspondence related to the Policy Committee's activities should be sent to Susan Fields, Chair, at sfields@isac.org. If you have questions about the Committee's activities, please contact Susan at (217) 524-7931, or by email at the address provided.

Information regarding the *Common Manual*, including the current and historic versions of the Manual, may be accessed on the *Common Manual* website at www.commonmanual.org.

COMMON MANUAL - FEDERAL POLICY PROPOSAL

Date: February 12, 2009

	DRAFT	Comments Due	
	FINAL	Consider at GB Meeting	
	APPROVED	With Changes / No Changes	

SUBJECT: Capitalizing Interest on PLUS Loans

AFFECTED SECTIONS: 10.10 Capitalizing Accrued Interest
10.10.A Permitted Capitalization
10.10.B Capitalization Frequency

POLICY INFORMATION: 1085/Batch 156

EFFECTIVE DATE/TRIGGER EVENT: PLUS loans first disbursed by the lender on or after July 1, 2008.

BASIS:

HEA §428B(d)(2), as amended by the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA), (P.L.110-227).

CURRENT POLICY:

Current policy permits the lender to capitalize interest on a PLUS loan for periods of in-school deferment and other authorized deferment periods. The lender is permitted to capitalize interest no more frequently than quarterly and again when the loan enters repayment.

REVISED POLICY:

Revised policy provides that for a PLUS loan first disbursed on or after July 1, 2008, the lender must capitalize unpaid interest if the borrower does not pay the interest. Interest may be capitalized no more frequently than quarterly.

REASON FOR CHANGE:

This change is made to align common policy with the provisions of ECASLA.

PROPOSED LANGUAGE - COMMON MANUAL:

Note: Changes to Subsection 10.10.A refer to a new Subsection 11.6.E, proposed in policy proposal 1086, also in Batch 156.

Revise Section 10.10, page 17, column 2, paragraph 2, as follows:

**10.10
Capitalizing Interest**

Capitalization of interest on all FFELP loans is permitted under the terms of the promissory note and federal statute and regulations. In some cases, a lender is required to capitalize unpaid interest; sometimes statute or regulations provide the lender the option to capitalize the unpaid interest. A lender capitalizes interest by adding accrued interest to the loan's principal balance.

Revise Subsection 10.10.A, page 17, column 2, by amending its title and inserting a new paragraph after paragraph 3, as follows:

**10.10.A
Permitted and Required Capitalization**

A lender may capitalize unsubsidized interest that accrues during:

- ...

• ...

A lender is required to capitalize unpaid interest accruing on a PLUS loan first disbursed on or after July 1, 2008, during a period of in-school deferment or post-enrollment deferment. See Section 11.6 for more information regarding in-school deferment, and Subsection 11.6.E for more information regarding post-enrollment deferment.

Revise Subsection 10.10.B, page 18, column 1, paragraph 1, as follows:

**10.10.B
Capitalization Frequency**

To determine when the lender may capitalize interest, the lender should refer to the following instructions.

PLUS Loans First Disbursed on or after July 1, 2008

The lender must capitalize unpaid interest on a PLUS loan no more frequently than quarterly during an in-school deferment or during the 6-month post-enrollment deferment.

For all other periods of deferment on a PLUS loan, the lender is permitted — but not required — to capitalize unpaid interest as specified later in this subsection.

PROPOSED LANGUAGE - COMMON BULLETIN:

Capitalizing Interest on PLUS Loans

The *Common Manual* has been revised to provide that a lender must capitalize unpaid interest on a PLUS loan first disbursed on or after July 1, 2008, no more frequently than quarterly if the loan is in an in-school deferment or during a 6-month post-enrollment deferment.

For all other periods of deferment on a PLUS loan, the lender is permitted — but not required — to capitalize unpaid interest.

GUARANTOR COMMENTS:

None.

IMPLICATIONS:

Borrower:

A PLUS loan borrower who fails to pay interest during an in-school deferment or post-enrollment deferment will have the balance on the loan increased by the capitalization of outstanding interest.

School:

None.

Lender/Servicer:

A lender/servicer may be required to amend systems or procedures to ensure that it capitalizes outstanding, unpaid PLUS loan interest as required.

Guarantor:

A guarantor may be required to amend program review procedures. Claim amounts on PLUS loans may increase if lenders were previously choosing not to capitalize some PLUS interest and are now compelled by law to do so.

U.S. Department of Education:

The Department may be required to amend program review procedures.

To be completed by the Policy Committee

POLICY CHANGE PROPOSED BY:

CM Policy Committee

DATE SUBMITTED TO CM POLICY COMMITTEE:

October 24, 2008

DATE SUBMITTED TO CM GOVERNING BOARD FOR APPROVAL:

PROPOSAL DISTRIBUTED TO:

CM Policy Committee
CM Guarantor Designee
Interested Industry Groups and Others

Comments Received from:

AES/PHEAA, ASA, CSLF, EAC, FAME, Great Lakes, HESSA, HESC, MGA, NASFAA, NCHELP, NSLP, OGSPL, PPSV, SCSLC, SLMA, SLND, SLSA, TG, USA Funds, and VSAC.

Responses to Comments

Most commenters supported this proposal as written. Other commenters recommended wordsmithing changes that made no substantive changes to the policy but that added clarity to the proposed language. We appreciate the review of all commenters, their careful consideration of this policy, and their assistance in crafting clear, concise policy statements.

COMMENT:

Several commenters responded by requesting that this policy be withdrawn. It was the consensus of this group of commenters that the provisions imposed by ECASLA, mandating the capitalization of unpaid unsubsidized interest, were subsequently repealed by HEOA. The commenters note that HEOA returns the provisions to their previous requirements.

Response:

The Committee agrees. The Committee appreciates the careful consideration and comments provided by the community and based on those comments, is withdrawing the proposed policy.

bg/edited - kk