



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

ROBERT J. KLEINE
STATE TREASURER

TO: Participating Schools and Lenders

FROM: Diane Todd Sprague, Director 

DATE: April 21, 2006

SUBJECT: Educational Loan Notes

MARK YOUR CALENDERS FOR MGA'S SPRING SCHOOL WORKSHOPS

The Michigan Guaranty Agency's (MGA) 2006 Spring School Workshops have been scheduled for Tuesday, May 23 at Grand Rapids Community College's Tassell M-TEC and Wednesday, May 24 at Eastern Michigan University. Agenda topics for the workshops are:

▪ **Policy and Regulatory Update**

This session reviews the Deficit Reduction Act of 2005 which authorizes portions of the Higher Education Act of 1965 in conjunction with budget reconciliation. The session will also cover announcements from the U.S. Department of Education (ED) and changes in certain Internal Revenue Service definitions.

▪ **Unmet Need**

Due to the rising costs of postsecondary education, more students have unmet need after all financial aid has been awarded. This session reviews several options that you can discuss with students to help them bridge the gap between their financial aid and the costs of attending your institution.

▪ **Preparing for an Audit**

One of the best ways to ensure a smooth and successful audit is to understand what will happen during an audit and how to prepare. This session will describe the steps you can take and practices you should follow to prepare for an audit.



▪ **Professional Judgment and the EFC**

Although your school does not have the authority to change the federal need-analysis formula or make direct adjustments to the Estimated Family Contribution (EFC), you may adjust the inputs to the formula through use of professional judgment. Those changes are dictated by the impact of the special circumstances on a family's income and assets. This session shows how certain changes to those inputs can affect the EFC.

▪ **Dealing with Challenging Students and Parents**

The financial aid process can be confusing and frustrating for students and parents. Occasionally, this frustration is taken out on you. This session helps you learn ways to effectively empathize and deal with challenging students and parents.

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▪ **FFELP Guide**

What is the role of a guarantor? What does a secondary market do? This reference piece explains the role of the key players in the Federal Family Education Loan Program (FFELP). Additionally, this session addresses basic FFELP topics including the loan programs that comprise FFELP, when proration is required, and FFELP interest rates, as well as loan eligibility formulas, fees, and loan repayment terms. This reference session concludes with a comprehensive quiz and case study section that allows you to test your knowledge of FFELP parameters.

Registration and continental breakfast will begin at 8:30 a.m., with the first session starting at 9:00 a.m. Lunch will be provided, and we plan to conclude at approximately 3:00 p.m.

Registration materials were sent via email on April 11. If you prefer, you may register online by going to our Web site at mgaloan.com. On our homepage listed under "What's New" is a link to the online registration form. Please register by Monday, May 8, 2006. All reservations will be acknowledged with a confirmation email, including directions to the workshop site.

If you have any questions or concerns regarding registration, please contact Stacy Cardwell at 1-800-642-5626, extension 36074. Questions pertaining to the workshop should be directed to Flora Boles at extension 52882.

BASIC TRAINING WORKSHOP SUMMARY

MGA conducted a Basic Training Workshop for new financial aid office staff on April 5 at Schoolcraft College in Livonia. The workshop was well received by 42 financial aid participants from 20 different schools.

MGA staff presented information on the following topics:

- FFELP Overview and the Role of a Guarantor
- Michigan Student Financial Aid Programs (Presented by the Office of Scholarships and Grants)
- Loan Application Processing
- Customer Services
- School Services
- Training and Development

- Information Security
- Default Aversion
- Claims and Collections
- Preparing for a Program Review

Notebooks covering the agenda topics are available to all schools free of charge. To order a notebook, or if you have questions regarding the material covered at the workshops, contact Stacy Cardwell at extension 36074 or via email at cardwells@michigan.gov.



Participants at MGA's Basic Training Workshop.

OUTREACH ACTIVITIES

One of MGA's responsibilities is to help families plan for and pursue higher education by ensuring that students and parents are aware of all possible financial aid opportunities. So far this year, staff from MGA has assisted approximately 25,000 students and parents with information and programs on obtaining a postsecondary education through:

- Presentations on various topics such as scholarship searches and scams, general financial aid information, student loan options, state of Michigan programs, and the Free Application for Federal Student Aid (FAFSA).
- Participation in college fairs, providing students and parents the opportunity to view a display board highlighting various financial aid options, as well as an opportunity to ask questions and acquire written material on the various financial aid programs and on obtaining a higher education.
- Participation in the Michigan Student Financial Aid Association's (MSFAA) early awareness program called, "Lessons in Dollars," which is geared toward high school seniors and the

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“Get REAL” (Real Early Awareness Lessons) program, which is designed for high school juniors.

- Conducting the Extreme Reality Workshop which is an interactive activity where students learn the importance of budgeting and discover how a college education and career choices affect income. The workshop showcases real life experiences that students will face as responsible adults.

If you have any questions concerning MGA’s outreach activities, please contact Stephanie Bogard at extension 12101 or via email bogards1@michigan.gov.

ED EXTENDS USE OF CURRENT TOTAL AND PERMANENT DISABILITY APPLICATION

As many of you probably know, the application for a loan discharge due to total and permanent disability was set to expire on December 31, 2005; however, Federal Student Aid (FSA) obtained an emergency clearance to use the form through the end of March 2006. Now that March has passed, FSA is working with the federal Office of Management and Budget (OMB) to extend the use of the current application for another two years.

While the application is in this extension process it is still considered a valid form and can be used. Once the extension process is complete, FSA will resume its efforts to revise and improve the application.

If you have any questions regarding the Total and Permanent Disability discharge application, please contact Tom Montgomery at extension 60613 or via email at montgomeryt@michigan.gov.

STAFFORD MPN EXTENDED FOR TWO YEARS

ED recently announced that OMB has approved the FFELP Stafford Master Promissory Note (MPN) without change for two years. The new expiration date is February 29, 2008.

MAPPING YOUR FUTURE TO ADOPT ARCHIVE POLICY FOR OSLC RECORDS

Mapping Your Future (MYF) is adopting a new archive policy for Online Student Loan Counseling (OSLC) records. The new policy will limit the length of time MYF retains counseling records to better protect borrowers’ confidential data. Beginning September 1, 2006, the policy will stand as follows:

- The most recent two years of counseling records will be available online.
- The preceding year will be available offline, provided upon customer service request.
- All prior data will be destroyed.

While MYF is not a record keeper, it has maintained all counseling records online since July 16, 2003, as a courtesy. Its obligation to protect borrowers now must take a higher priority over record retention. If school clients have not regularly retrieved loan counseling records or retained them per record retention requirements, MYF recommends they begin doing so immediately, concentrating on older records first before MYF archives them. In addition, MYF recommends guaranty agencies participating in ExitExpress retrieve any older exit data they may need for skip tracing purposes. Please note that MGA does participate in ExitExpress and regularly downloads and images exit counseling information.

If you have questions or problems, contact CariAnne Behr at carianne@mapping-your-future.org or (573) 634-8641.

ED RELEASES GUIDANCE ON LENDER REPORTING

ED has released Dear Colleague Letter (DCL) FP-06-04 which provides guidance on reporting changes to the Lenders Interest and Special Allowance Request and Report (LaRS). These changes result from new regulations in the Higher Education Reconciliation Act (HERA) of 2005. A copy of the DCL can be found at <http://www.ifap.ed.gov/dpclatters/FP0604.html>.

The DCL discusses the following reporting changes for lenders and lender servicers:

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Reduction of Origination Fees

For loans with the first disbursement of principal made on or after July 1, 2006, and before July 1, 2007, the maximum origination fee that can be charged to Stafford loan borrowers will be **2** percent. The maximum fee drops to **1.5** percent on July 1, 2007, **1.0** percent on July 1, 2008, and **0.5** percent on July 1, 2009. The fee will be eliminated as of July 1, 2010.

In Part I of the LaRS the edits for Column C, Fee Percent, have been changed to reflect the new fee structure. If you are completing the form online, you will see the new percentages when you select this column. All percentage changes will be enabled during the reporting period in which they take effect.

New Interest Rates for FFELP, PLUS, and Stafford Loans

For PLUS loans with the first disbursement made on or after July 1, 2006, the interest rate scheduled to take effect has been increased from a fixed rate of **7.9** percent to a fixed rate of **8.5** percent. Stafford loans, with the first disbursement made on or after July 1, 2006, have an increased fixed rate of **6.8** percent.

LaRS edits for Part I, Column D, Part II, Column B, and Part III, Column F have been changed to reflect the new interest rates. If you are completing the form online, you will see the new interest rates in the drop-down boxes beginning with the quarter ending September 30, 2006.

Changes to Special Allowance

Lenders are required by HERA to repay excess interest when the applicable interest rate on a loan for any quarter exceeds the "special allowance support level," beginning for loans with first disbursement of principal made on or after April 1, 2006. This does not apply with respect to any special allowance payment made under section 438 of the HEA before April 1, 2006. Please refer to the DCL for a definition of the term, "special allowance support level," and information on how to calculate the excess interest.

This provision requires the following new special allowance categories for loans first disbursed on or after April 1, 2006:

1. **CE** – For all Stafford loans during an in-school, grace, or deferment period,

2. **CF** – For all Stafford loans in repayment,
3. **CG** – For Consolidation loans, and
4. **CH** – For PLUS loans, including PLUS loans made to graduate and professional students as authorized by HERA.

Special Allowance Payments on Tax-Exempt Loans

The HERA has made permanent certain special allowance payment provisions of the Taxpayer-Teacher Protection Act of 2004, effective February 8, 2006. Under the HEA, loans that were financed with funds obtained by the holder from the issuance of tax-exempt obligations originally issued prior to October 1, 1993, would be paid at the usual rates paid on other loans (as specified in subparagraphs (A), (E), (F), (G), (H), or (I) of section 438(b)(2) of the HEA) if certain actions occurred after September 30, 2004, and before January 1, 2006. The HERA removed the January 1, 2006, ending date which means that the special allowance rates on these tax-exempt loans that were covered under 438(b)(2)(B) revert to the usual rates if these loans are:

1. Financed by a tax-exempt obligation described in section 438(b)(2)(B)(v)(I)(aa) that, after September 30, 2004, has matured or been refunded, retired or defeased; or
2. Refinanced after September 30, 2004, with funds obtained from a source other than funds described in section 438(b)(2)(B)(v)(I); or
3. Sold or transferred to any other holder after September 30, 2004.

Note: Please refer to the DCL for additional information on two new provisions and exceptions to the new provisions.

ED has created new tax-exempt special allowance categories for loans disbursed on or after April 1, 2006, for those lenders eligible under the special exceptions in the DCL. The new codes are effective April 1 in order to comply with the provision to recapture excess interest. The new codes are:

1. **XM** – For all Stafford loans in an in-school, grace or deferment period,
2. **XN** – For all Stafford loans in repayment,
3. **XO** – For Consolidation loans, and
4. **XP** – For PLUS loans, including PLUS graduate and professional loans as authorized by HERA.

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Restriction of Special Allowance on PLUS Loans

Beginning with the quarter ending September 30, 2006, PLUS loans first disbursed on or after July 1, 2006, will be eligible for special allowance. Prior to this provision the HEA did not provide for PLUS special allowance during any 12-month period beginning July 1 and ending June 30 unless the average of the bond equivalent rates of the quotes of the three-month commercial paper (financial) for the last calendar week ending on or before such July 1, plus 2.64 percent, exceeded 9.0 percent.

Lender Identification Number (LID) Assignment

ED reiterates its policy that LIDs are assigned solely for the purpose of identifying a particular entity and tracking that lender's activities in the FFELP program. Requests for LIDs to accommodate a lender's business needs (e.g., a contractual arrangement that a lender has with its servicer) are not consistent with the purpose of the LID and will be denied.

Consolidation Loan Rebate Fees

Some lenders and/or lender servicers may be reporting only the "borrower's interest" and not the "government interest" on Lines 7 and 11 ("EOM Accrued Unpaid Interest Balance") of the FFELP Consolidation Loan Rebate Fee Report and Remittance Form. The DCL states that this is incorrect and "all accrued unpaid interest is subject to the Consolidation Loan Rebate Fee, regardless of whether that interest will be paid by ED or paid by the borrower."

Also, ED asks that lenders and lender servicers refrain from sending sensitive documents such as borrower rosters with names and Social Security Numbers, as these documents are not needed for fee processing and are shredded upon receipt.

Lender Profile Updates

ED reminds lenders that they are responsible for reporting any acquisitions, mergers, or name changes (ideally before the change) as soon as the lender is aware the change will occur. If not, ED expects change notifications to be reported no later than 30 days after they occur. Changes can be reported via email to FSA_LR@ed.gov.

Also, changes in payment instructions, i.e., ACH routing or account numbers, should be reported promptly to the FMS Operations Help Desk at

1-800-433-7327, Options 3, to reduce the possibility that your payment will be returned to ED for invalid information.

Organizational Participation Agreements Renewal Deadline

The current Organizational Participation Agreements (OPA) are due to expire on September 30, 2006. ED is advising lenders and lender servicers to watch for further information in May 2006 regarding renewal of the forms.

Treasury Offset Program (TOP)

The U.S. Department of Treasury is now matching ED payments against outstanding government debts based on the Tax ID number on ED's lender profile. Unfortunately, ED receives no information from Treasury to indicate an offset has occurred. If a lender receives an email payment notice for one amount and their actual receipt is for another amount, their payment may have been offset.

To determine if an offset has occurred, look at your incoming ACH transmission. Normally it will say it is coming from "EPGA TREAS 303." However, if an offset has occurred the transmission will say it is coming from "TCS TREAS 449." If this happens, please call Lender Reporting at 202-377-3324 or 202-377-3322 so ED can verify the Tax ID number as reported to Treasury and provide further guidance.

The DCL provides more detailed information, however if you have questions that are not addressed in the DCL, please email FSA_LR@ed.gov. You may also contact Betty Calloway at extension 39639 or via email at callowayb@michigan.gov.

SCHOOL LIST UPDATES

The following changes should be recorded by lenders on MGA's "Active Michigan School List" dated January 3, 2006. If you have any questions regarding these changes, please contact Stacy Cardwell at extension 36074.

Contact Name Change

University of Detroit Mercy, Detroit, 002323-00
Delete Karen Rainey. The contact person is Jenny McAlonan. Jenny's telephone number is 313-993-3343 and fax number is 313-993-3347. Her email address is mcalonjl@udmercy.edu.

LENDER LIST UPDATES

School personnel continuing to use their paper copy of MGA's "Participating Lender List" should record the following actions on the list dated April 28, 2005. Please make the appropriate changes in all sections of the list as needed.

To access the most current lender information and eliminate the need for manual updates, use the electronic version of MGA's "Participating Lender List" available at mgaloan.com. Select "Financial Aid Professionals," and then "FAA Resources." If you have any questions regarding these updates, please contact Pat Fromm at extension 36076 or via email at frommp@michigan.gov.

Name Change

The name for the following lender codes has changed from Bank One Education Finance Corp. to Chase-JPMorgan Chase Bank, N.A.:

803538	805974	808857
803634	808732	811925

Newly Participating Lender

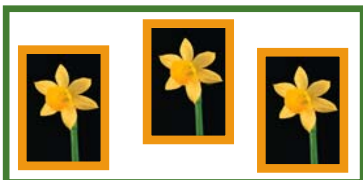
Bank of Lake Mills, 834263, c/o Xpress Loan Servicing, 1500 West 3rd Street, Suite 125, Columbus, OH 44113. Telephone: 888-811-7101.

THE "ED" PIPELINE

Following is a description and link to some of the most recent ED correspondence for schools and lenders.

Dear Partner
April 2006
ANN-06-03

This letter announces the release of the last of three online, self-paced learning modules on EDExpress for 2006-07. The module, "Pell Grant and Direct Loan Processing" covers all the Pell Grant Program and Direct Loan functions of the EDExpress software.



Dear Partner
March 2006
CB-06-04

This letter announces the upcoming posting to ED's eCampus-Based (eCB) Web site of schools' 2006-2007 final funding authorizations for the campus-based programs.

Dear Partner
March 2006
CB-06-05

This letter provides information on requesting a waiver of the 2006-07 community service expenditure requirements under the Federal Work-Study Program.

Dear Partner
March 2006
CB-06-06

This letter provides information about the Fiscal Operations Report for 2005-06 and Application to Participate for 2007-08 (FISAP) for the Federal Perkins Loan, Federal Supplemental Educational Opportunity Grant (FSEOG), and Federal Work-Study (FWS) programs.

Dear Partner
March 2006
GEN-06-02

This letter contains information on changes made to the loan programs under Title IV of the Higher Education Act of 1965, as amended, by Pub. L. 109 171.

Dear Partner
March 2006
GEN-06-03

The attachment to this letter is a corrected page seven from the Dear Colleague Letter on changes made to the loan programs by the Higher Education Reconciliation Act of 2005 that was posted to IFAP on March 10, 2006.

Dear Partner
April 2006
GEN-06-04

This letter contains information on two new grant programs created by HERA under Title IV of the Higher Education Act of 1965, as amended.

“Q” AND “A”**Using Good Standing Letters to Resolve Defaults**

NSLDS shows a loan in default for a Stafford loan applicant. What is required for a school to be able to certify additional loans?

In order for a school to certify any additional loans if NSLDS shows a borrower in default, that school must obtain a good standing letter from the loan holder which specifically addresses the status of the loan in question and states that the borrower is eligible for additional Title IV funds.

If a borrower has regained Title IV eligibility through a voluntary six consecutive month payment plan with the guarantor, how often does a school need to verify eligibility?

Because a borrower who regains Title IV eligibility on a defaulted loan through six consecutive payments must continue to make payments even while they are attending school, the financial aid office must verify that the borrower is still current by either contacting the guarantor or checking NSLDS before each disbursement.

If a borrower stops making payments after obtaining a good standing letter through six consecutive payments, what must the borrower do to regain eligibility?

To remain in good standing, borrowers who have obtained a good standing letter after making six consecutive payments must continue to make consecutive payments even if they are in school. Borrowers who go on to lose eligibility by skipping a payment may not obtain another good standing letter for consecutive payments. Borrowers in this situation should contact the MGA Collections Unit to either pay their loan in full or enter into a loan rehabilitation program.

How can a school determine whether a loan is held by MGA or another entity?

If the loan is a Federal Family Education Loan Program (FFELP) loan, NSLDS will list both the lender and the guarantor. If the loan is in a default or claim status, the guarantor will have purchased the loan. To know whether or not MGA is the guarantor, simply look to see if the guarantor field (GA) is populated with “Michigan Higher Education Assist. Auth - 726” which signifies an MGA-guaranteed loan.

Please note that any loans in default that are not held by MGA will require letters of good standing from the respective loan holders.

Can a school request a good standing letter from a loan holder?

A school cannot request a good standing letter for a borrower. However, a borrower may request that MGA forward a copy of the letter directly to the school’s financial aid office to expedite the process. The borrower will need to have a fax number or email address of the person at the financial aid office who should receive that letter. Please note that all requests from borrowers for good standing letters must be made in writing.

If a borrower has several loans in default and the school receives a letter of good standing from the loan holder, can we conclude that all of the loans in question are no longer in default?

While MGA will not send out a good standing letter unless the borrower has made satisfactory arrangements on all loans in default, it is always best to obtain good standing letters that contain specific loan identification numbers. Those ID numbers can then be matched on NSLDS through the loan detail screens to ensure that the borrower has regained eligibility on every loan.

A good standing letter from MGA will always include an ID number which begins with the letters “MI.” In other words, MGA’s loan IDs will always look like “MI-xxxxxxxxxx” and schools will easily be able to match those loans with the loans listed on NSLDS.

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When a borrower has a loan in a bankruptcy status (BK) on NSLDS, schools sometimes ask for letters of good standing. Why is it that sometimes they receive them and sometimes they don't?

The difference is whether the loan is actually in default or not. Borrowers whose loans were previously in good standing and then declare bankruptcy may have their loans go into a bankruptcy claim status (reflected by BC or BK on NSLDS). As listed in the *Federal Student Aid Handbook*, Volume 1, Chapter 4, those codes reflect “no prior default, bankruptcy claim.” Because the loans were not in a default status prior to the bankruptcy, no good standing letter is required. Per the *Common Manual*, “the school may not refuse to certify the loan if the applicant is otherwise eligible. Also, the school may not, solely because of [a] bankruptcy action, certify a loan for an amount that is less than the amount for which the applicant would otherwise be eligible.” (*Common Manual* 5.6)

On the other hand, if a borrower's loans were in a default status prior to the bankruptcy (reflected by DB or DK on NSLDS) the borrower would indeed need to obtain a good standing letter for continued eligibility. Although no collection activity is pursued, a borrower would still need to make voluntary satisfactory payments on the loans previously in default status. Once a borrower has met the federal requirements in dealing with the defaulted student loan, the borrower may request a good standing letter.

Have a question you'd like to ask? Contact Justin Draeger at extension 31940 or via email at draegerj@michigan.gov to submit your question or to suggest a topic you would like to see discussed in a subsequent issue of *Educational Loan Notes*.



Calendar of Upcoming Events

May 2006

- 16 Mapping Your Future Evening Chat
Financial aid and managing student loans
and consumer debt.
- 23 Spring School Workshop
Grand Rapids Community College
Tassell M-TEC
Grand Rapids, Michigan
- 24 Spring School Workshop
Eastern Michigan University
Ypsilanti, Michigan
- 29 MGA Offices Closed

June 2006

- 13 Nteract Training
Lansing Community College
West Campus/M-TEC
Lansing, Michigan
- 25-28 MSFAA Summer Training
Boyne Mountain

If you need further information or wish to submit items for the calendar, please contact Jim Peterson, Editor, at extension 36944 or via email at petersonj@michigan.gov.