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STATE OF MICHIGAN



JOHN ENGLER, Governor  
DEPARTMENT OF TREASURY  
MARK A. MURRAY, State Treasurer

STUDENT FINANCIAL AID

**TO: Participating Schools and Lenders**

**FROM: Patricia W. Scott, Director**

**DATE: July 17, 2000**

**SUBJECT: Educational Loan Notes**

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**MPN PROCESSING ENHANCEMENTS**

With the advent of mandatory use of the Master Promissory Note (MPN) on July 1, 2000, schools now have education loan processing enhancements that simplify bookkeeping details. The MPN is the successor to the Stafford Loan Common Application and Promissory Note. The MPN can be used as an annual or multi-year promissory note. The multi-year (serial) process allows the borrower to use the original note for future loans over a ten-year period under qualified circumstances.

MGA simplifies bookkeeping details with two newly implemented MPN processing enhancements:

- Loan processing changes now accommodate U.S. Department of Education (ED) rules that allow non-serial-eligible schools to use the same MPN for subsequent loans as long as those new loans are within the same loan period as the first loan.
- For more efficient MPN processing when passing information to a lender in the response file, the system now automatically inserts zeros if the "borrower signature and date" field is blank.

In addition, to give the school and the borrower an easy reference for a direct contact to answer questions on lender-serviced loans, the servicer's address is now printed in the "Lending Institution Name and Address" field of the Notice of Loan Guarantee/Disclosure Statement (NOLG/DS).

Additional resources for the MPN can be found on the Internet, as follows:

The National Council of Higher Education Loan Programs ([NCHHELP](http://www.nchelp.org)) Line of Credit Task Force has made a comprehensive list of materials available that can be downloaded in various formats. Materials include a "Q & A," MPN forms, specific Dear Colleague Letters relative to MPN implementation, an Executive Summary suitable for presentations, and the list of eligible multi-year (serial) schools, to name a few. The materials are generic to loan processing scenarios and include the most direct information from ED. The Q & A is a thorough, nine-page document, subdivided into the following categories: Lender Issues, School Issues, Multi-year Loans, Confirmation and Notification, and Increases and Adjustments. Visit the NCHHELP Web site at [www.nchelp.org](http://www.nchelp.org).

*(Continued on the next page.)*



*The mission of the Michigan Guaranty Agency is to provide Michigan residents with optimum access to postsecondary educational opportunities through low-interest, long-term educational loans.*



USA Group ([www.usagroup.com](http://www.usagroup.com)) has a “[MPN Resource Center](#)” which is listed under the “Tools” heading on the Financial Aid Officers page. Most of the material is written for schools that use its products and services rather than providing generic information. It offers the following features:

- Quick explanation of how the MPN impacts Guarantee Only, Print and Guarantee, and Guarantee and Print scenarios;
- Nine FAQs for schools;
- 12 FAQs and a handout entitled “Master Promissory Note 201” (two separate items) for students;
- MPN reference guide (available on their public file transfer service);
- Sample school reports modified for MPN.

The MPN reference guide is a 96-page document available for download in Adobe Acrobat format. It provides an overview of the MPN and covers every aspect of implementation, processing, and reporting. It explains submission options for NetWizard, WhizKid, Non-WhizKid, Mainframe, and Paper processes. It also includes sample processing scenarios and compares the common application process to the MPN process.

### **AVOID DELAYS IN LOAN GUARANTEES AND DISBURSEMENTS**

Incomplete data fields, duplicate requests, and lack of necessary information at the correct time can delay the loan guarantee and disbursement process. As schools gear up for the fall processing season, we thought it might be helpful to include a list of common reasons that delay loan guarantees and disbursements.

Common reasons that a loan will suspend from the guarantee system include the following:

- **Borrower uses Stafford Common Application instead of the MPN.**
- **Graduation date is earlier than the end of the loan period, invalid, or blank.**
- **Borrower-requested lender is blank.**
- **Borrower forgot to sign the application.**
- **Loan period is longer than 365 days.**
- **School certification date is after the end of the loan period.**
- **Borrower will exceed annual or cumulative loan limits.**

- **MPN serial loan code is invalid or left blank.**
- **Request is a duplicate loan request.**

Although the following scenarios would not delay loan guarantee, they could delay loan disbursements.

- **References are missing or incomplete.**
- **Promissory note is received before the electronic transmission.**
- **MPN is sent without school certification (paper application).**
- **Application is incomplete.**
- **School/lender information on the promissory note does not match the transmitted information.**
- **Lenders using multiple lender codes are not tied at the organization level.**

### **NETWIZARD™ NOTICE**

NetWizard provides easier access to borrowers’ loan histories. Recent enhancements allow schools to access MGA’s database through NetWizard’s **guarantee, disbursement, and servicing** data screens, without a separate user ID and password. This will replace the old **Online Loan Connection** that allowed schools to access loan history with a **TSCH ID**. A notice of this change is posted on USA Group’s Web site, and the final switch will be completed by **August 31, 2000**.

For more information on making this change, contact Flora Boles, School Services Unit, at 1-800-642-5626, extension 52882.

### **E-SIGNATURE BILL SIGNED INTO LAW**

President Clinton on June 30 signed into law legislation giving electronic signatures the same legal authority as printed signatures. The law (PL 106-229) will generally take effect on October 1, 2000. There is a special effective date with respect to the consent requirements for loans made under title IV of the Higher Education Act (i.e. FFELP, Perkins, and Direct Loans).

This effective date is the earlier of the times ED publishes revised common promissory notes or that date that is one year after the law’s passage.

*(Continued on the next page.)*

Thus, in the case of FFELP loans electronic signatures will be recognized beginning October 1, 2000, and the consumer consent requirements applicable to electronic notices will come into effect on the earlier of publication of a new promissory note by ED or June 30, 2001. The consent provisions take effect October 1, 2000 for alternative non-FFELP education loans.

The ability to “electronically sign” documents and submit them over the Internet will remove one of the most time consuming steps in the loan application process. Lenders, servicers, and guaranty agencies will no longer have to wait for borrowers to sign and mail in paper documents.

Digital signatures are based on encryption techniques that verify the identities of the buyer and seller in an electronic transaction and prevent documents from being altered after the deal is completed. It requires consumers to have a digital certificate — the electronic equivalent to a tamper-proof ID card that proves that you are who you say you are — and two digital “keys” used to sign documents and read the certificate. Each key has a unique set of numbers.

Digital certificates issued by banks and other companies would be stored in the memory of home computers. A consumer then would use one digital key to attach their “signature” to the document. The document would be sent back along with the second “public” key to allow another computer (i.e., at the bank) to check the authenticity of the signature.

Any exchange would include a backstop to ensure that nobody changes the documents while the transaction is in process. Completed documents probably would be stored in a secure hard drive maintained by a third party.

### **LENDERS MUST OFFER GUARANTOR CONTACT INFORMATION**

Effective July 1, 2000, federal regulations require lenders to provide borrowers with guarantor contact information when the borrower disputes the terms of his or her loan in writing and the lender is unable to resolve the dispute.

If the dispute involves a loan guaranteed by the Michigan Guaranty Agency, the lender must give the borrower the following contact information:

**Jim Evans, Manager  
Customer Services Unit  
Michigan Guaranty Agency  
P.O. Box 30047  
Lansing, MI 48909-7547**

MGA’s compliance personnel will work to resolve the dispute. If they are unable to resolve the dispute, MGA will refer the borrower to the ombudsman at ED, as mandated by regulations. Lender and guarantor requirements regarding the provision of contacts for resolving borrower disputes are found in federal regulations 34 CFR 682.208 (c)(3).

For more information, feel free to call Jim Evans, at 1-800-642-5626, extension 39599.

### **ED RELEASES STUDENT PRIVACY REGULATIONS**

As part of its review of the Higher Education Act, ED issued rules July 6 on federal student privacy laws that carry out changes made by Congress in 1998 to the Family Educational Rights and Privacy Act. The rules give colleges broad latitude to reveal the results of disciplinary proceedings against students accused of violent crimes and to notify parents if a student younger than 21 is caught drinking or using illegal drugs. The privacy law generally prohibits colleges from releasing students’ educational records. Congress, however, enacted exemptions to these privacy protections to try to crack down on underage drinking and illegal drug use at colleges and other student crimes. Previously, colleges could not inform parents of a student’s alcohol violation if he or she was 18 or older unless the institution could prove that the student was financially dependent on a parent. Under the new rules, colleges can notify the parents of any student younger than 21.

ED’s rules make clear that colleges do not have to hold disciplinary hearings before alerting parents that their children have been caught drinking or using illegal drugs. Instead, colleges can establish their own procedures for deciding when to contact parents. Schools are not required to alert students when they have notified their parents. Schools must, however, keep a record of the disclosure and provide it, upon request, to students who wish to know if their parents have been notified.

**INSTITUTION NAME CHANGE**

Suomi College has changed its name to Finlandia University. Please note they have changed from a two-year junior college to a four-year university. This change is effective July 1, 2000.

**SPECIAL ALLOWANCE RATES**

Special allowance rates based on the 91-day T-bill average and the three-month Commercial Paper average for the quarter ending June 30, 2000, are attached to this issue of *Loan Notes*. All new Federal Family Education Loans disbursed on or after January 1, 2000, are paid special allowance, if eligible, based on the Commercial Paper rate.

**REVISED SCHOOL AND LENDER LISTS**

The MGA "Active Michigan School List" and "Participating Lender List" have been updated and are scheduled to be mailed this week. Questions or concerns regarding the school list should be directed to our School Services Unit, ext. 36074. Questions or concerns regarding the lender list should be directed to our Lender Services Unit, ext. 36076.

**THE "ED" PIPELINE**

Following is a list of some of the most recent ED correspondence for lenders and schools.

[Dear Partner](#)  
[June 2000](#)  
[ANN-00-13](#)

This letter announces the Student Financial Assistance (SFA) Publication Listing on the Web.

[Dear Partner](#)  
[May 2000](#)  
[CB-00-09](#)

This letter pertains to the 1998-99 Federal Perkins Loan Service Cancellations Reimbursement and Payment Letter.

[Dear Partner](#)  
[July 2000](#)  
[Action Letter #1](#)  
[GEN-00-10](#)

This letter provides advanced information on the process for requesting electronic and/or printed Renewal Free Applications for Federal Student Aid (Renewal FAFSA) for 2001-02 processing cycle.

[Dear Partner](#)  
[July 2000](#)  
[GEN-00-09](#)

This letter is an invitation to attend the Third-Party Servicers and Software Providers Conference on August 10 and 11 in Arlington, Virginia. It also describes the conference and tells you how to register.

[Dear Partner](#)  
[June 2000](#)  
[GEN-00-08](#)

This letter explains how to request a waiver of the annual audit submission requirements—available for institutions that disburse less than \$200,000 in Title IV funds each award year.

**"Q" & "A"**

Editor's note: The following Q and A's are an excerpt from a list provided by NCHELP.

**Q: Prior to MPN, schools could submit paper or electronic correction records to increase certified loan amounts, up to the maximum requested by the borrower. Without a requested amount on the MPN, will schools still be able to send in correction records to increase loan amounts, or will new certification records be required?**

**A:** Handle this under the "same as today" rule. If the request for additional funds is for *the same loan period or is for a period that is within the same loan period*, the request may be considered an adjustment, not a new loan.

**Q: If a borrower is attending a school that is not eligible for the multi-year function of the MPN and the school certifies a first loan and later a subsequent loan for the same year, does the borrower need to sign a new MPN for the subsequent loan?**

**Editor's Note: Based on new information the answer to this question is different than in the original NCHELP document.**

**A:** If the subsequent loan is within the same academic year as the first loan, a change record can be submitted to extend the loan period end date on the first loan to include the loan period of the second loan. An increase to the loan amount and the addition of another scheduled disbursement can then be submitted as a change without requiring a new MPN.

**EXAMPLE:** A borrower has a \$1,500 loan for the period 8/21/00 through 5/10/01. The borrower decides to borrow an additional \$500 to attend the Summer semester. The Summer semester begins on 6/04/01 and ends 8/03/01. It is a trailer to the school's academic year. The school can submit a change record to the first loan to change the loan period end date from 5/10/01 to 8/03/01. The school can then submit a second change to increase the loan amount from \$1,500 to \$2,000 and add a third disbursement for \$500 which falls during the Summer semester.

- Q: If a borrower is attending a school that is not eligible for the multi-year function of the MPN and that school or a different school later certifies a subsequent loan or a loan adjustment for an overlapping loan period, does the borrower need to sign a new MPN for the subsequent loan?**
- A:** First whether certified as a new loan or as a loan adjustment, the certification should be treated as a new loan because it is for a new loan period. Therefore, if a school were not eligible for the multi-year functionality of the MPN, a new MPN would be required.
- Q: The Department of Education is distributing information regarding the MPN. They indicate that the MPN expires upon the earliest of: a) the date the Secretary or the school receives the borrower's written notice that no further loans may be disbursed; b) one year after the date of the borrower's first anticipated disbursement if no disbursement is made during that twelve-month period; or c) ten years after the date of the first anticipated disbursement except that a remaining portion of a loan may be disbursed after this date. Is this information correct?**
- A:** This is generally correct, however the MPN never "expires." The ability to make additional loans or disbursements under an MPN can be revoked in three situations:
- The date the lender or Secretary (in the case of an FDLP loan) receives the borrower's written notice requesting no further loans to be made;
  - One year from the borrower's signature date if no initial disbursement is made during that 12 month period; or,
  - 10 years from the borrower's signature date except that any remaining disbursement(s) of a loan can be made if the first disbursement of that last loan is made prior to the end of the 10 years.
- Q: If the school certification (sent electronically) includes the lender code, but the MPN form received from the borrower does not include the lender, can we accept the information the school sent to us as the lender of choice?**
- A:** Absent information to the contrary, the lender of record is the borrower's choice. If the school has completed the lender code on the school certification, that information should be accepted as the borrower's choice. If the MPN form was then received with a different lender code, the service provider should contact the borrower and ask which lender he or she wants to use.
- Q: We have had several students return their signed MPN with a requested loan amount handwritten in box #11 or next to it. Does that invalidate the MPN or in some way limit the amounts the lender can provide the borrower after the first loan is disbursed?**
- A:** The borrower's written request does not invalidate the MPN. Instead, the lender should consider the requested amount as identifying the borrower's loan amount for the loan being made. Any subsequent loan would follow the notification/confirmation process.

## Calendar of Upcoming Events

### August 2000

14      Deadline for Lender's Timely Reporting to MGA  
National Student Loan Data System (NSLDS)  
Quarter Ending June 30, 2000

### September 2000

4            MGA Office Closed

7            Michigan Higher Education Assistance Authority  
(MHEAA) and Michigan Higher Education Student  
Loan Authority (MHESLA) Meetings  
Lansing, MI

8-9        Michigan Association of Credit Unions Conference  
Amway Grand Hotel  
Grand Rapids, MI

### September 2000 (continued)

13-15     Michigan Association of Community Bankers  
Grand Traverse Resort  
Traverse City, MI

20-22     MBA Consumer & Mortgage Lending Conference  
Shanty Creek  
Bellaire, MI

26         Guaranty Agency Advisory Committee Meeting  
Michigan Athletic Club  
East Lansing, MI

If you need further information or wish to submit items for the calendar, please contact Jim Peterson, Editor, at ext. 36944, or via e-mail at [petersonj@state.mi.us](mailto:petersonj@state.mi.us).

# LOAN NOTES

JULY 2000

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**91 DAY COMMERCIAL PAPER**  
**SPECIAL ALLOWANCE RATES**  
**FOR**  
**QUARTER ENDING JUNE 30, 2000**

	Loan Rate	Special Allowance Annual Rate	SA Quarterly Rate	Part IV: SA Category Column C
CA	Stafford Var (6.32%)	2.08%	0.52%	<u>CA</u> for subsidized/unsubsidized Stafford loans made on or after 1/1/00 but prior to 7/1/03, during in-school, grace and deferment periods only.
CB	Stafford Var (6.92%)	2.08%	0.52%	<u>CB</u> for subsidized/unsubsidized Stafford loans made on or after 1/1/00 but prior to 7/1/03, during repayment and forbearance periods only.
CD	PLUS Var (7.72%)	0	0	<u>CD</u> for PLUS loans made on or after 1/1/00 but prior to 7/1/03 (note: special allowance will not be paid unless the calculated interest rate exceeds the 9% cap)

**PLEASE NOTE:** The 3-month Commercial Paper average (bond equivalent rate) is 6.66% for the 2nd quarter of 2000.  
This results in the following yields:

CA – 6.66% plus 1.74% = 8.40%

CB – 6.66% plus 2.34% = 9.00%

CD – 6.66% plus 2.64% = 9.30%

**91 DAY TREASURY BILL**  
**SPECIAL ALLOWANCE RATES**  
**For**  
**QUARTER ENDING JUNE 30, 2000**

Loan Rate	Special Allowance Annual Rate	SA Quarterly Rate	Part IV: Special Allowance Category Column C
<b>SA</b> 7%	2.50%	0.6250%	<u>SA</u> for loans made before 10/01/81.
9% 0.50%	0.1250%		
<b>SB</b> 7%	2.44%	0.6100%	<u>SB</u> for loans made on or after 10/01/81 and before 11/16/86; for enrollment periods beginning before 11/16/86.
8%	1.44%	0.3600%	
9%	0.44%	0.1100%	
<b>SD</b> 7%	2.19%	0.5475%	<u>SD</u> for loans made on or after 11/16/86 and before 10/1/92.
8%	1.19%	0.2975%	
9%	0.19%	0.0475%	
FVAR10 (7.87%)	1.32%	0.3300%	
<b>PLUS/SLS</b> var (8.13%)	0	0	
<b>SE</b> FVAR7 (7%)	2.04%	0.5100%	<u>SE</u> for loans with first disbursements made on or after 10/1/92 and before 7/1/94; or for loan periods that began before 7/1/94.
FVAR8 (7.72%)	1.32%	0.3300%	
FVAR9 (7.72%)	1.32%	0.3300%	
FVAR10 (7.72%)	1.32%	0.3300%	
EVAR (7.72%)	1.32%	0.3300%	
<b>PLUS/SLS</b> var (7.98%)	0	0	
<b>SG</b> Stafford var (7.72%)	1.32%	0.3300%	<u>SG</u> for PLUS loans made on or after 7/1/94; for loan periods that began on or after that date. For Stafford loans made 7/1/94 to 7/1/95. For Stafford loans made on or after 7/1/95 during repayment periods only.
<b>PLUS</b> var (7.98%)	1.06%	0.2650%	
<b>SH</b> Stafford var(7.12%)	1.32%	0.3300%	<u>SH</u> for Stafford loans made on or after 7/1/95 during in school, grace and deferment periods only. For PLUS loans made on or grace, and deferment periods only. For PLUS loans made on or after 7/1/98.
<b>PLUS</b> var (7.72%)	0	0	
<b>SJ</b> Stafford var (6.32%)	1.82%	0.4550%	<u>SJ</u> for Stafford loans made on or after 7/1/98 during in-school, grace, and deferment.
<b>SK</b> Stafford var (6.92%)	1.82%	0.4550%	<u>SK</u> for Stafford loans made on or after 7/1/98 during repayment.

**PLEASE NOTE:** The 91 day T-Bill Average (bond equivalent rate) is 5.94 % for the 2nd quarter of 2000. This results in the following yields:

SA – 5.94% plus 3.50 = 9.44% rounded up = 9.50%  
 SB – 5.94% plus 3.50 = 9.44%  
 SD – 5.94% plus 3.25 = 9.19%  
 SE – 5.94% plus 3.10 = 9.04%

SG – 5.94% plus 3.10 = 9.04%  
 SH – 5.94% plus 2.50 = 8.44%  
 SJ -- 5.94% plus 2.20 = 8.14%  
 SK – 5.94% plus 2.80 = 8.74%