



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JOHN ENGLER  
GOVERNOR

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STATE TREASURER

**TO:** Participating Schools and Lenders  
**FROM:** Patricia W. Scott, Director  
**DATE:** July 26, 2002  
**SUBJECT:** Educational Loan Notes

**DEFAULT PREVENTION FOR SCHOOLS WEB MODULE ONLINE**

The Michigan Guaranty Agency (MGA) is proud to present this Web site resource for our schools who are committed to helping student loan borrowers succeed in completing their education and repaying their student loans. The "Default Prevention for Schools" model was created to help each school develop a comprehensive default prevention plan. Your school's default prevention plan should include a systematic way of continuing debt management education throughout the life cycle of the student loan process. To access this module, go to our main page at [Michigan.gov/mistudentaid](http://Michigan.gov/mistudentaid), choose the Financial Aid Administrators button, and then the Default Prevention tab.

## Default Prevention for Schools

- Develop a Team Approach
- Default Management Plans
- The Web as a Communication Tool
- Teaching Students Money Mgmt.
- Partnering with Others
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Later this year, MGA will develop a Web resource for students entitled, "Financing Your Education." This student resource will be designed to include a timeline to follow when pursuing financial aid, goal setting, budgeting, estimating costs, comparing offers, and other options for funding an education.

If you have suggestions for the student's Web resource or have questions or comments concerning the Default Prevention for Schools module, please contact Jim Swisk at ext. 37121, or via e-mail [swiskj@michigan.gov](mailto:swiskj@michigan.gov).

### COLLECTION CONNECTION

This is the third in a series of articles highlighting the activities in MGA's Claims and Collections Section. If you are interested in Administrative Wage Garnishment (AWG) or the new Total and Permanent Disability Discharge procedures, be sure to read the articles in the last two months' issues of *Educational Loan Notes*. This month's article gives some general information on bankruptcy and how it is managed by MGA.

There are two main bankruptcy types that MGA manages, Chapter 13 and Chapter 7. While both types seek protection from creditors, Chapter 13 bankruptcy is filed to restructure debt so payments are more manageable. Chapter 7 bankruptcy is filed when a debtor seeks to have all their debt cancelled. The courts have ruled, however, that student loans are not dischargeable through bankruptcy, so even in this situation the debtor is responsible to make arrangements to repay the loan.

#### **Chapter 7 Bankruptcy**

Lenders do not file Chapter 7 bankruptcy claims with MGA. Upon receipt of bankruptcy notification, the lender must cease all collection activity and hold the loan until the bankruptcy action concludes. At that time, the lender must determine the correct status of the account and return it to that status.

#### **Chapter 13 Bankruptcy**

If a lender receives notice that a borrower has filed Chapter 13 bankruptcy, the lender is required to file a claim with MGA. The lender has 30 days from the date of notification to file a proof of claim with the bankruptcy court and to file a bankruptcy default claim with MGA.

Often a borrower will apply for a new student loan while they are still in Chapter 13 bankruptcy status. Federal regulations require the borrower to have made provisions for paying back the outstanding student loan(s) before a new loan can be approved.

In addition, a borrower who is in Chapter 13 bankruptcy is considered under a court order and is required to abide by the provisions of the plan of the court. If the plan has an injunction against new debt without court approval, MGA requires the borrower to petition the court to authorize any student loan over the amount allowed by the plan.

Once the bankruptcy action has concluded (dismissal, completion of the plan, etc.) the lender must repurchase the account from MGA and return the loan(s) to the appropriate status. When the repurchase is complete, the loan(s) is no longer considered in default.

One of MGA's collectors, Rich Ziebarth, currently works full-time on bankruptcy issues. Rich handles everything from routine paperwork to court appearances, and his expertise is invaluable.

Be sure to look in future issues of *Educational Loan Notes* for the Collection Connection.

#### Correction

In the "Q" AND "A" section of last month's *Educational Loan Notes* the Web site address for a list of eligible schools for the Teacher Loan Forgiveness Program was incorrect. Following is the address of the Web site that should be used to verify school eligibility for Federal Stafford loans:

<http://www.ed.gov/offices/OSFAP/Students/repayment/teachers/stafford.html>.

The original article inadvertently provided the Web site for Federal Perkins loans.

#### NSLDS REPORTING REMINDER

Federal law requires lenders and lender servicers to report all status changes to their guarantors throughout the life of a loan. Status changes to report include, but are not limited to:

- When the borrower is in school.
- Cancellation of all or a portion of the loan.
- Disbursement dates that differ from the dates originally provided on the guarantee.
- Date loan enters repayment.
- Loans that have been paid-in-full or consolidated.
- Loan sales or transfers.

With the advent of the abandoned loan (AL) status, it is critical for a lender to report status changes to their student loan portfolio. Loans with no reported activity for four years, in

*(Continued on the next page.)*

repayment for less than 12 years, are classified as abandoned loans. As compared to loans with no reported activity for four years that have been in repayment for more than 12 years that are classified as paid-in-full.

Recently, several borrowers contacted MGA to report they had applied for additional financial aid or a consolidation loan, but were not eligible because their loans are in AL status. The results of an investigation revealed that the borrowers were in repayment status and eligible for additional loans, but their lenders had failed to report any status information to MGA. Borrowers cannot receive further financial assistance until their lenders have reported the correct status. If their lenders had complied with federal regulations and reported the status changes, this unfortunate situation could have been prevented.

It is imperative that loan information is updated and reported in a timely manner so loan data on our system will match the information on the lender's system. This will ensure that the information sent to the National Student Loan Data System (NSLDS) is accurate.

Forms currently used by lenders to report changes are: the Loan Maintenance form, the Loan Change form, and the Disbursement Change form. If you need any assistance with reporting to the NSLDS or need to order any of the forms, please contact MGA's Lender Services Unit at ext. 36076.

### **UPDATES TO THE COHORT DEFAULT RATE GUIDE**

The U.S. Department of Education (ED) recently announced updates to the "Cohort Default Rate Guide." The following Web site contains updates to the "Cohort Default Rate Guide:" <http://ifap.ed.gov/drmaterials/changelog.html>

Updates to this publication will be reflected **ONLY** at the above-mentioned Web site, therefore, periodic review of the site is recommended for maintaining an up-to-date version of the "Cohort Default Rate Guide." If you have any questions regarding the information contained in that document, please contact Maureen Nixon at (202) 377-3190, or via e-mail at [Maureen.Nixon@ed.gov](mailto:Maureen.Nixon@ed.gov).

### **NEW VARIABLE INTEREST RATES**

Attached to this issue of *Educational Loan Notes* is a revised chart containing all new Federal Family Education Loan Program (FFELP) variable interest rates effective July 1, 2002. In our June issue we published the new variable rates for all loans indexed to the 91-day Treasury Bill (T-Bill), but were unable to publish the new rates for PLUS and SLS variable rate loans made prior to July 1, 1998. The older PLUS and SLS loan variable rates are now indexed to the weekly average of the one-year constant maturity Treasury yield for the last calendar week ending on or before June 26. We now know the weekly average was 2.13% and have updated the chart to show all of the new variable rates. If you have any questions, please contact Bob Graham in the Lender Services Unit at ext. 30922, or via e-mail at [grahamb1@michigan.gov](mailto:grahamb1@michigan.gov).

### **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 March 31, 2002, are attached to this issue of *Educational Loan Notes*. All new FFELP loans disbursed on or after January 1, 2000, are paid special allowance, if eligible, based on the Commercial Paper rate.

### **LENDER LIST UPDATES**

School personnel should record the following actions on the "Participating Lender List" dated May 14, 2002. Please make the appropriate changes in all section of the list as needed. If you have any questions regarding these updates, please contact the Lender Services Unit, ext. 36076.

#### **Institution Name Change**

**EFS, 700041**, will now be Nelnet/EFS for its Indiana location. Telephone and e-mail information will remain the same.

#### **Newly Participating Lender**

**Union Bank of California as Trustee for CHELA Financial USA, 820192**, c/o AFSA Data Corporation, 2277 East 220<sup>th</sup> Street, Long Beach, CA 90810-1690. Telephone: 800-835-4611.

#### **Address Change**

**Nelnet, Inc., 700122**, P.O. Box 82596, Lincoln, NE 68501-2596. Telephone: 800-755-7858.

**Termination of Lender**

The following lenders are no longer originating student loans. Please delete them from your list.

**Charter Bank, 806065**  
**Education Funding Association Inc., thru Zions First National Bank, 833789**

**Correction**

In the June issue, the mail code was incorrectly printed for **Charter One Bank, N.A., 807745**. The correct address is 833 Broadway, MC-ENYH955, Albany, NY 12207. Also, please add extension 2210 to their telephone number 800-252-2500.

**UPDATED SCHOOL LIST**

The MGA "Active Michigan School List" has been updated and was mailed in late July. Questions or concerns regarding the school list should be directed to our School Services Unit, ext. 36074.

**THE "ED" PIPELINE**

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

**Dear Partner**  
**June 2002**  
**CB-02-11**

This letter provides information on requesting a waiver of the 2002-2003 Federal Work-Study Program community service expenditure requirements.

**Dear Partner**  
**June 2002**  
**GEN-02-05**  
**CB-02-10**  
**G-02-336**  
**L-02-230**

This letter and its attachments contain the revised OMB approved loan discharge application forms for use in the Title IV student loan programs – the Federal Family Education Loan Program, the William D. Ford Federal Direct Loan Program, and the Federal Perkins Loan Program.

**Dear Partner**  
**June 2002**  
**GEN-02-04**  
**CB-02-09**  
**G-02-335**  
**L-02-229**

This letter served as the approval of the Federal Family Education Loan, William D. Ford Federal Direct Loan, and Federal Perkins Loan programs Loan Discharge Application: Total and Permanent Disability form. This form is the only one that may be distributed for use for total and permanent disability discharge requests on or after July 1, 2002.

**Dear Partner**  
**June 2002**  
**GEN-02-03**  
**CB-02-08**  
**G-02-334**  
**L-02-228**

This letter discussed implementation of the regulatory changes for total and permanent disability discharges in the Federal Family Education Loan (FFEL), William D. Ford Federal Direct Loan, and Federal Perkins Loan programs. This letter also provides Perkins school lenders, FFEL lenders, and guaranty agencies guidance on the new procedures for processing total and permanent disability discharge requests.

**“Q” AND “A”****Q: What is the Family Educational Rights and Privacy Act (FERPA)?**

A: FERPA is a federal law that applies to educational agencies and institutions that receive federal funds under any program administered by the Secretary of Education.

**Q: What is the purpose of FERPA?**

A: FERPA prohibits the funding of an educational agency or institution that has a policy or practice of disclosing a student's “education record” (or personally identifiable information contained therein) without the consent of the student. Consent generally requires prior written authorization from the student before personally identifiable information can be disclosed to a third party by an educational institution.

**Q: How are “education records” defined?**

A: Education records are files, documents, and other materials that contain information directly related to a student and are maintained by an educational agency or institution or by a person acting for such agency or institution.

**Q: Are there any exceptions in FERPA that allow for disclosure of personally identifiable information about a student without their prior written consent?**

A: YES. Some pertinent exceptions are:

1. Lawfully issued subpoenas or court orders;
2. Health or safety emergencies;
3. Law enforcement unit records;
4. Directory information; and
5. Disclosures to the Immigration and Naturalization Service (INS).

**Q: Are there any changes to FERPA resulting from the passage of the USA Patriot Act of 2001 that became effective when the President signed the law on October 26, 2001?**

A: YES. An amendment to FERPA permits educational agencies and institutions to disclose -- without the consent of the student or parent -- personally identifiable information from the student's education records to the Attorney General of the United States or to his designee in response to an (ex parte) order in connection with the investigation or prosecution of terrorism crimes. An (ex parte) order is an order issued by a court of competent jurisdiction without notice to an adverse party.

FERPA's record-keeping requirements are also amended to not require a school official to record a disclosure of information from a student's education record when the school makes the disclosure pursuant to an (ex parte) order. Further, an educational agency or institution that, in good faith, produces information from education records in compliance with an (ex parte) order issued under the amendment “shall not be liable to any person for that production.”

**Q: Who can I contact for further guidance on FERPA provisions?**

A: Contact the Family Policy Compliance Office at:  
Family Policy Compliance Office  
U. S. Department of Education  
400 Maryland Avenue, SW  
Washington, D. C. 20202-4605  
(202) 260-3887 - Telephone  
(202) 260-9001 - Fax

School officials may contact the Family Policy Compliance Office by e-mail for quick, informal responses to routine questions about FERPA. That address is: [FERPA@ED.Gov](mailto:FERPA@ED.Gov). The Web site is: [www.ed.gov/offices/OM/fpco](http://www.ed.gov/offices/OM/fpco).

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# Calendar of Upcoming Events

## August 2002

- 14 Deadline for lenders' timely reporting to MGA National Student Loan Data System (NSLDS) quarter ending June 30, 2002.

## September 2002

- 2 MGA Offices Closed
- 18-20 Michigan Association of Community Bankers  
Grand Traverse Resort  
Acme, MI

## September (continued)

- 24 Guaranty Agency Advisory Committee Meeting  
Michigan Athletic Club  
East Lansing, MI
- 25-27 MBA Retail Lending Conference  
Water Front Inn and Conference Center  
Traverse City, MI

## October 2002

- 13-16 MASFAA Conference - 40th Anniversary  
Marriott Renaissance Hotel  
Detroit, 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@michigan.gov](mailto:petersonj@michigan.gov).



# LOAN NOTES

JULY 2002

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**FEDERAL FAMILY EDUCATION LOAN PROGRAM  
VARIABLE INTEREST RATES**



**Effective July 1, 2002 thru June 30, 2003**

<b>STAFFORD</b>	New loans and existing loans made on or after 7/1/98	Loans made 7/1/95 thru 6/30/98	Loans made 7/1/94 thru 6/30/95
<b>Variable Interest Rate</b>	<b>3.46%</b> (in-school) <b>4.06%</b> (repayment)	<b>4.26%</b> (in-school) <b>4.86%</b> (repayment)	<b>4.86%</b>
<b>CAP Rate</b>	8.25%	8.25%	8.25%
<b>Formula</b>	91-day T-Bill + 1.7% (in-school) 91-day T-Bill + 2.3% (repayment)	91-day T-Bill + 2.5% (in-school) 91-day T-Bill + 3.1% (repayment)	91-day T-Bill + 3.1%

<b>STAFFORD</b>	Variable rate loans made prior to 7/1/94	Windfall converted 7%, 8%, 9%, and 8/10% fixed rate loans disbursed on or after 7/23/92	Windfall converted 8/10% fixed rate loans made prior to 7/23/92 (during repayment only)
<b>Variable Interest Rate</b>	<b>4.86%</b>	FVAR7 - <b>4.86%</b> FVAR8 - <b>4.86%</b> FVAR9 - <b>4.86%</b> FVAR10 - <b>4.86%</b>	<b>5.01%</b>
<b>CAP Rate</b>	9.0%	Original fixed rate	10%
<b>Formula</b>	91-day T-Bill + 3.1%	91-day T-Bill + 3.1%	91-day T-Bill + 3.25%

<b>PLUS/SLS</b>	PLUS loans made on or after 1/1/00	PLUS loans made 7/1/98 thru 12/31/99	PLUS loans made 7/1/94 thru 6/30/98	PLUS loans made 10/1/92 thru 6/30/94	SLS loans made 10/1/92 thru 6/30/94	Variable rate PLUS/SLS loans made prior to 10/1/92
<b>Variable Interest Rate</b>	<b>4.86%</b>	<b>4.86%</b>	<b>5.23%</b>	<b>5.23%</b>	<b>5.23%</b>	<b>5.38%</b>
<b>CAP Rate</b>	9.0%	9.0%	9.0%	10%	11%	12%
<b>Formula</b>	91-day T-Bill + 3.1%	91-day T-Bill + 3.1%	One-year constant maturity + 3.1%	One-year constant maturity + 3.1%	One-year constant maturity + 3.1%	One-year constant maturity + 3.25%

The annual variable rates for all new Stafford and PLUS loans are calculated from the final 91-day Treasury Bill (T-Bill) rate at the last auction each May.

The final auction rate at the end of May 2002 was 1.76%

The annual variable rates for PLUS and SLS loans made prior to July 1, 1998 are calculated from the average of the one-year constant maturity Treasury yield for the last calendar week ending on or before June 26 of each year. The average for the week ending on or before June 26, 2002 was 2.13%.

**91-DAY TREASURY BILL  
SPECIAL ALLOWANCE RATES  
FOR  
QUARTER ENDING JUNE 30, 2002**

	Loan Rate	Special Allowance Annual Rate	SA Quarterly Rate	Part IV: Special Allowance Category Column C
<b>SA</b>	7% 9%	0 0	0 0	<b>SA for loans made before 10/01/81.</b>
<b>SB</b>	7% 8% 9%	0 0 0	0 0 0	<b>SB for loans made on or after 10/01/81 and before 11/16/86; for enrollment periods beginning before 11/16/86.</b>
<b>SD</b>	7% 8% 9% FVAR10 (6.94%)  PLUS/SLS Var (6.71%)	0 0 0 0  0	0 0 0 0  0	<b>SD for loans made on or after 11/16/86 and before 10/01/92.</b>
<b>SE</b>	FVAR7 (6.79%) FVAR8 (6.79%) FVAR9 (6.79%) FVAR10 (6.79%) EVAR (6.79%)  PLUS/SLS Var (6.56%)	0 0 0 0 0  0	0 0 0 0 0  0	<b>SE for loans with first disbursements made on or after 10/01/92 and before 07/01/94; or for loan periods that began before 07/01/94.</b>
<b>SG</b>	Stafford Var (6.79%)  PLUS Var (6.56%)-CAP	0  0	0  0	<b>SG for PLUS loans made on or after 07/01/94; for loan periods that began on or after that date. For Stafford loans made 07/01/94 to 07/01/95. For Stafford loans made on or after 07/01/95 during repayment periods only.</b>
<b>SH</b>	Stafford Var (6.19%)  PLUS Var (6.79%)	0  0	0  0	<b>SH for Stafford loans made on or after 07/01/95 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 07/01/98.</b>
<b>SJ</b>	Stafford Var (5.39%)	0	0	<b>SJ for Stafford loans made on or after 07/01/98 during in-school, grace, and deferment.</b>
<b>SK</b>	Stafford Var (5.99%)	0	0	<b>SK for Stafford loans made on or after 07/01/98 during repayment.</b>

**PLEASE NOTE:** The 91-day T-bill average (bond equivalent rate) is **1.75%** for the **second** quarter of **2002**. This results in the following yields:

<b>SA</b> 1.75% plus 3.50% = 5.25% rounded up = 5.25 %	<b>SG</b> 1.75% plus 3.10% = 4.85%
<b>SB</b> 1.75% plus 3.50% = 5.25%	<b>SH</b> 1.75% plus 2.50% = 4.25%
<b>SD</b> 1.75% plus 3.25% = 5.00%	<b>SJ</b> 1.75% plus 2.20% = 3.95%
<b>SE</b> 1.75% plus 3.10% = 4.85%	<b>SK</b> 1.75% plus 2.80% = 4.55%

**91-DAY COMMERCIAL PAPER  
SPECIAL ALLOWANCE RATES  
FOR  
QUARTER ENDING JUNE 30, 2002**

	<b>Loan Rate</b>	<b>Special Allowance Annual Rate</b>	<b>SA Quarterly Rate</b>	<b>Part IV: Special Allowance Category Column C</b>
<b>CA</b>	Stafford Var (5.39%)	0	0	<u>CA</u> for subsidized/unsubsidized Stafford loans made on or after 01/01/00 but prior to 07/01/03, during in-school, grace, and deferment periods only.
<b>CB</b>	Stafford Var (5.99%)	0	0	<u>CB</u> for subsidized/unsubsidized Stafford loans made on or after 01/01/00 but prior to 07/01/03, during repayment and forbearance periods only.
<b>CD</b>	PLUS Var (6.79%)	0	0	<u>CD</u> for PLUS loans made on or after 01/01/00 but prior to 07/01/03 (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 **1.84%** for the **second** quarter of **2002**. This results in the following yields:

<b>CA</b> 1.84% plus 1.74% = 3.58%
<b>CB</b> 1.84% plus 2.34% = 4.18%
<b>CD</b> 1.84% plus 2.64% = 4.48%



FSA Information for Financial Aid Professionals  
U.S. Department of Education



Publication Date: May 2002

DCL ID: CB-02-08

New Total and Permanent Disability Discharge Procedures for Title IV Loans Effective - July 1, 2002

**May 2002**

**GEN-02-03**

**CB-02-08**

**G-02-334**

**L-02-228**

**SUBJECT: New Total and Permanent Disability Discharge Procedures for Title IV Loans - Effective July 1, 2002**

**SUMMARY:** This letter discusses implementation of the regulatory changes for total and permanent disability discharges in the Federal Perkins Loan, Federal Family Education Loan (FFEL), and the William D. Ford Federal Direct Loan programs. The final regulations were published on November 1, 2000. While some of the provisions went into effect on July 1, 2001, most of the regulatory changes become effective July 1, 2002. This letter provides guidance to Perkins school lenders, FFEL lenders, and guaranty agencies on the new procedures for processing total and permanent disability discharge requests.

Dear Colleague:

To address weaknesses in the procedures for granting total and permanent disability discharges on federal student loans identified in a June 1999 report issued by the Department's Inspector General, the Department conducted a negotiated rulemaking process with representatives from the higher education community from January to May 2000. All members of the negotiating committee could not reach agreement on the proposed regulatory changes, and the Department published proposed regulations for public comment on August 2, 2000.

After considering the public comments received on the proposed regulations and making changes where appropriate, the Department published final regulations on November 1, 2000, that significantly revise the process for granting disability discharges. In addition, as part of those regulations, the definition of total and permanent disability was changed, removing the requirement that a borrower be unable to attend school. This revised definition became effective July 1, 2001.

Under the changed definition, a borrower is totally and permanently disabled if the borrower: "is unable to work and earn money because of an injury or illness that is expected to continue indefinitely or result in death" [34 C.F.R. §§674.51(s), 682.200]. The final regulations also made significant changes to the process for evaluating disability discharge applications. Those changes will go into effect on July 1, 2002.

This Dear Colleague Letter provides a general overview of the disability discharge regulations and procedures that go into effect on July 1, 2002. In addition,

Attachments 1 and 2 to this letter provide guidance specific to Perkins school lenders and FFEL lenders and guarantors. Attachment 3 outlines the role of the Department in the new process.

## **I. Overview of Regulatory Changes**

The regulatory changes revising the process for granting total and permanent disability discharges are contained in 34 C.F.R. §674. 61(b) of the Perkins regulations, 34 C.F.R. §§682.402(c) and 682.402(r) of the FFEL regulations, and 34 C.F.R. §685.213 of the Direct Loan regulations. Under the new regulations, the disability discharge procedures are as follows:

1. The borrower applies to the loan holder (i.e., the current owner of the loan) for a disability discharge. For Perkins Loans, the loan holder is the Perkins school lender. For FFEL loans, the loan holder is a lender or, if the loan has gone into default, a guaranty agency. For Direct Loans and other Title IV loans assigned to the Department, the loan holder is the U.S. Department of Education.

The loan holder must make a preliminary determination as to whether the borrower meets the criteria for a total and permanent disability discharge. For Perkins loans, the preliminary determination is made by the school. In the FFEL Program, the current loan holder makes the determination. For Direct Loans, the preliminary determination is made by Direct Loan staff. For other loans held by the Department, the preliminary determination is made by the Department's Federal Student Aid (FSA) Collections. In addition, for FFEL loans, the guaranty agency conducts an independent evaluation of the discharge request after the FFEL lender makes a preliminary determination that the borrower qualifies for the discharge, except in the case where the guaranty agency is the current loan holder and the borrower submitted the discharge request directly to the guaranty agency.

2. If during the preliminary determination a loan holder, guaranty agency or the Department determines that the borrower does not meet the criteria for a disability discharge, the discharge request is denied, the loan is returned to its prior status and, as appropriate, collection activity or regular servicing resumes on the loan.

3. For Perkins Loans, if the school determines that a borrower meets the criteria for a disability discharge, it must assign the loan to the Department's Disability Discharge Unit. For FFEL loans, the loan is assigned to the Department's Disability Discharge Unit if both the loan holder and the guaranty agency determine that a borrower meets the criteria for a total and permanent disability discharge.

4. The Department reviews all assigned loans with discharge applications to affirm that the borrower meets the criteria for a discharge. If we affirm that the borrower meets the criteria for a total and permanent disability discharge, the loan is placed in a conditional discharge status for three years. During this conditional discharge period, the borrower is not required to make payments and interest does not accrue.

5. During this conditional discharge period, we will monitor whether the borrower has been able to work and earn money or has received a new Title IV loan in order to ensure that the borrower continues to qualify for the total and permanent disability discharge. At the end of the conditional discharge period, we will make a determination that the borrower has met the definition of total and permanent disability if he or she has not had annual earnings from work during the conditional discharge period in excess of the poverty level for a family of two, and has not received any new Title IV loans during the period. If these conditions are met throughout the conditional discharge period, we will grant a final discharge.

6. In some cases, a borrower may have become totally and permanently disabled, as determined by a physician, three or more years before the loan is assigned. In these cases, the initial determination of eligibility - based on the borrower's medical documentation - and the final determination of eligibility - based on the borrower's earnings and subsequent Title IV loan activity - will be conducted at the same time and we may immediately grant a final discharge.

During the discharge process, borrowers will be given a phone number to call and speak with a representative if they have any questions about their discharge requests. Borrowers will also be told that they may contact our Student Loan Ombudsman for assistance in resolving disputes. However, as with the current

total and permanent disability discharge process, there is no formal appeals process for a borrower who is denied a discharge.

## **II. Application Availability and Effective Date For Use**

Currently, disability discharge requests in the FFEL and Direct Loan Program are processed using the form titled "Loan Discharge Application: Total and Permanent Disability" [OMB Number 1845-0015]. Perkins school lenders do not currently use a Department of Education form for processing disability discharge requests, although they have a comparable application process. We have developed a new total and permanent disability discharge application for use in all three of the Title IV loan programs. This form is currently under review by the Office of Management and budget. After this new total and permanent disability discharge application form is approved by OMB in the next few weeks, we will make it immediately available to the financial aid community by posting it to the Information for Financial Aid Professionals (IFAP) web site as an attachment to a Dear Colleague Letter. The new disability discharge application must be provided to all borrowers who request total and permanent disability discharges on or after July 1, 2002. However, program participants may use the previous form for borrowers who were in the discharge process prior to July 1, 2002, but must follow the new standards and procedures for all disability discharge determinations made on or after July 1, 2002.

## **III. Triggering Date for Implementation of New Procedures**

**The new standards and procedures for granting total and permanent disability discharges resulting from the November 1, 2000 final regulations that are discussed in this letter go into effect on July 1, 2002.**

For all disability discharge requests approved on or after July 1, 2002 based on the previously approved total and permanent disability discharge form (or a school form for Perkins borrowers), the loan holder must, in the preliminary determination letter, inform the borrower that the regulations governing disability discharges have changed and explain the new total and permanent disability eligibility criteria and discharge process.

## **IV. Department's Expectations for Holders' Preliminary Determinations**

We expect loan holders and guaranty agencies to conduct rigorous evaluations of disability discharge requests. If the borrower's medical documentation does not support the conclusion that the borrower is unable to work and earn money because of an injury or illness that is expected to continue indefinitely or result in death, the discharge request should be denied. Loan holders and guarantors should follow the guidance for reviewing disability claims that was provided in Dear Guaranty Agency Director Letter 99-G-324, dated November 1999. This guidance states that loan holders are expected to:

1. Require additional documentation to support a borrower's application if the information provided by the borrower is not definitive, is illegible, or is incomplete.
2. Require the physician to affirm certification of disability if the diagnosis does not appear to satisfy the standard for discharge. If it appears that the physician has used a less rigorous standard in certifying the borrower's disability, loan holders should clarify the definition of "total and permanent disability" with the physician.

Loan holders may want to seek the assistance of a qualified physician to evaluate total and permanent disability discharge requests, as appropriate. Loan holders should also report to the Department's Office of Inspector General any questionable patterns related to physicians' certifying signatures or state licensing numbers regarding the legitimacy of the disability discharge request.

The Attachments to this letter provide more detailed information on the new eligibility criteria and procedures for granting total and permanent disability discharges.

We would like to thank the student financial aid community for its assistance in developing these new procedures and designing the new total and permanent disability discharge form. We look forward to continuing to work with you to ensure that only those borrowers who are eligible will continue to receive total and permanent disability discharges on their Title IV loans. Thank you for your cooperation in implementing these new safeguards and your continued support of the federal student financial assistance programs.

Sincerely,

Jeffrey R. Andrade  
Deputy Assistant Secretary for  
Policy, Planning, and Innovation  
Office of Postsecondary Education

Greg Woods  
Chief Operating Officer  
Federal Student Aid

Attachment 1: Federal Perkins Loan Program

Attachment 2: FFEL Program

Attachment 3: Department of Education

Attachments/Enclosures:

[Federal Perkins Loan Program in PDF Format, 15KB, 4 pages](#)

[Federal Perkins Loan Program in MS Word Format, 48KB, 4 pages](#)

[FFEL Program in PDF Format, 18KB, 5 pages](#)

[FFEL Program in MS Word Format, 35KB, 5 pages](#)

[Department of Education in PDF Format, 14KB, 3 pages](#)

[Department of Education in MS Word Format, 34KB, 3 pages](#)

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# Stafford Loan Cancellation for Teachers

**applies to Stafford Loans, Direct Subsidized, and Unsubsidized Loans made to new borrowers after 10/1/1998 and to the portions of a Consolidation Loan derived from these loans.**

▲ You may be able to cancel up to \$5,000 of your Stafford Loans if you are teaching in a low-income school and you are a "new borrower." A new borrower is one who received his or her first Stafford Loan on or after October 1, 1998 or who, when the new loan was made, had no remaining balance on a Stafford Loan made prior to 10/1/98.

▲ To qualify you must work as a full-time teacher for 5 consecutive years in an elementary or secondary school that has been designated as a "low-income" school. Low-income elementary and secondary schools are designated by the Department each year. Following is the list of low-income schools by year:

**School Year:** [1997-1998](#) | [1998-1999](#) | [1999-2000](#) | [2000-2001](#) | [2001-2002](#)

## **Additional conditions:**

- ▲ At least one of the five qualifying years of teaching must be later than the 1997-98 academic year.
- ▲ The loan must have been made before the end of the fifth year of qualifying teaching.
- ▲ The elementary school must be public or private nonprofit.
- ▲ A defaulted loan cannot be cancelled for teacher service unless you've made satisfactory repayment arrangements with the holder of the loan.
- ▲ A borrower may not receive loan forgiveness for qualifying teaching service if the borrower receives an Americorps benefit for the same teaching service.

## **Interruptions in your school's low-income designation**

Your school does not have to be designated a low-income school in each of the 5 consecutive years. If you are teaching at a school that is listed as a low-income school for at least one year (during your employment), your subsequent years of service at that school can be counted in the five consecutive years, even if the school is not designated as a low-income school in every subsequent year. For example, if you began teaching at a secondary school in the 1994-95 academic year, and it was designated as a low-income school in 1996-97, you may count your five consecutive years of service at that school starting with the 1996-97 academic year, even if the school is not designated as a low-income school in subsequent years.

## Interruptions in teaching service

Your five consecutive years won't necessarily be interrupted if you were unable to teach a full year because of a family or medical leave condition\*, if you went back to school (at least half-time) for reasons directly related to the performance of your teaching service, or if you were called or ordered to active duty status for more than 30 days as a member of a reserve component of the Armed Forces\*\*. If you completed at least one-half of the academic year and your employer considers you to have fulfilled your contract requirements for the academic year for the purposes of salary increases, tenure, and retirement, that academic year can be counted as one of your qualifying years of teaching service.

\* A condition that is covered under the Family and Medical Leave Act of 1993 (FMLA) (19 U.S.C. 2654)

\*\* A reserve component of the Armed Forces named in section 10101 of Title 10, United States Code.

## How to apply

You may apply for cancellation after completing the five year teaching requirement. To apply you must submit an application to the lender or servicer holding your loan. Copies of the application can be obtained from the holder of your loan. The chief administrative officer at your school must certify on this form that you have taught full-time for five consecutive years at that school, and---

- *if you're teaching in an elementary school*, that you have knowledge of or teaching skills in reading, writing, mathematics, and other areas of the elementary curriculum.
- *if you're teaching in a secondary school*, that you are teaching in a subject area relevant to your academic major.

## Postponing repayment while under consideration for cancellation

You can get a forbearance for up to 60 days while you're getting the required information for your application and during the time it takes for your application to be reviewed by the lender and guarantor. (The loan holder and guaranty agency must notify you within 135 days of the decision on your application and, if it is approved, provide new repayment terms based on any remaining loan balances.) The lender may cancel up to \$5,000 of the aggregate loan amount that is outstanding after you've finished your fifth year of teaching. (The aggregate loan amount includes both principal and interest.) However, the lender cannot refund the payments you made before you completed the fifth year of teaching service. You may want to request forbearance from your lender for each of the years of your qualifying teaching service if the expected cancellation amount will satisfy the anticipated remaining outstanding balance on the loan at the time of the expected cancellation. Unless you give your lender or servicer other instructions, your unsubsidized Stafford loan balance will be cancelled first, followed by any outstanding subsidized Stafford loan balances, and then any eligible outstanding consolidation loan balances. The lender may cancel only the outstanding portion of the consolidation loan that was used to repay subsidized or unsubsidized Stafford loans that qualified for loan forgiveness.

## Definitions:

- "Academic year" means one complete school year at the same school, or two complete and consecutive half years at different schools, or two complete and consecutive half years from different school years at either the same school or different schools. Half years exclude summer sessions and generally fall within a twelve-month period. For schools that have a year-round program of instruction, nine months is considered an academic year.
- "Elementary school" and "secondary school" means a public or nonprofit private school that provides elementary education or secondary education as determined by state law (or by the Department if the school is not in a state).
- "Full-time employment as a teacher" is determined by the state's standard. For a borrower teaching in more than one school, the determination of full-time is based on the combination of all qualifying employment.
- "Teacher" means a person who provides direct classroom teaching or classroom-type teaching in a non-classroom setting, including Special Education teachers.

## Download a summary of this information

You can download and print out this information in a convenient Portable Document Format (PDF, requires the Adobe Acrobat Reader, which you can download for free at the [Adobe Web site](#)). The [color version](#) works best if printed as a two-sided sheet and then folded into a brochure. The [black-and-white](#) version can be easily printed and copied. Both have the same text and can be duplicated but not sold.

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*This page last modified May 13, 2002 ([bjs](#))*

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