


Processing DL Funds

FASFAA Clock Hour Workshop



**Awarding & Processing Direct Loans: Clock-Hours**

David Bartnicki | October 5-7, 2015  
U.S. Department of Education

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**Agenda**

- Direct Loan Basics
- Academic Year
- Prorating Annual Loan Limits
- Transfer Students
- Resources



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**Direct Loan Basics**



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**Direct Loan Basics**

- William D. Ford Federal Direct Loan Program (“Direct Loan” or “DL”)
- Loan types include
  - Subsidized Stafford (Sub) - Only for undergraduates
  - Unsubsidized Stafford (Unsub) - For undergraduates, graduates, and professional students
  - PLUS Loan for Graduate and Professional Students (unsubsidized)
  - PLUS Loan for Parents (unsubsidized) - For parents of dependent students

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**Direct Loan Basics**

- Regulations at 34 C.F.R. §685 (link from IFAP)
- Source of funds is the U.S. Treasury
- Money is transmitted via ED’s G5 system
- Signed MPN or eMPN required
- Counseling required – Entrance & Exit

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**Loan Limits**

- Students are subject to annual and aggregate loan limits
- Dependent upon the student’s financial aid package, student may not be eligible to borrow the full amount



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### Annual Loan Limits

Year	Dependent Undergraduate	Independent Undergraduate <small>And Dep. Undergrad whose parent can't borrow PLUS</small>	Graduate/ Professional Student
1 <sup>st</sup>	\$5,500 (maximum \$3,500 subsidized)	\$9,500 (maximum \$3,500 subsidized)	Up to \$20,500 each academic year (maximum \$8,500 subsidized) 
2 <sup>nd</sup>	\$6,500 (maximum \$4,500 subsidized)	\$10,500 (maximum \$4,500 subsidized)	
3 <sup>rd</sup> and Beyond	\$7,500 (maximum \$5,500 subsidized)	\$12,500 (maximum \$5,500 subsidized)	

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### Aggregate Loan Limits

Dependent Undergraduate	\$31,000 combined sub/unsub No more than \$23,000 in sub
Independent Undergraduate*	\$57,500 combined sub/unsub No more than \$23,000 in sub
Grad/Professional	\$138,500 combined sub/unsub No more than \$65,500 in sub

\* Also for dependent students whose parents are unable to obtain a PLUS loan

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### General Loan Awarding Principles

- Must award subsidized before awarding unsubsidized
- Base Amount *may be* all subsidized, all unsubsidized, or a combination.
  - Subsidized amount may not exceed the Base Amount
- Annual Loan Limit includes the Base Amount and Additional Unsubsidized

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### General Direct Loan Requirements

<p><b>Student must:</b></p> <ul style="list-style-type: none"> <li>• Be enrolled at least half-time</li> <li>• Meet eligibility requirements, <i>except for:</i> <ul style="list-style-type: none"> <li>• Preparatory coursework</li> <li>• Teacher certification coursework</li> </ul> </li> </ul> <p><i>Reminder: All general Title IV student eligibility requirements also apply</i></p>	<p><b>School must:</b></p> <ul style="list-style-type: none"> <li>– Determine Pell eligibility before loans</li> <li>– Determine loan eligibility                             <ul style="list-style-type: none"> <li>• Subsidized eligibility before Unsubsidized</li> <li>• No Adverse Credit history for PLUS borrowers</li> <li>• Aggregate limits</li> <li>• Other Title IV eligibility requirements</li> </ul> </li> </ul>
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### Direct Loan Interest Rates – 2015-16

*Direct Loans first disbursed on or after July 1, 2015 but before July 1, 2016*

- Undergrad Sub and Unsub – 4.29% (cap 8.25%)
- Grad Unsub – 5.84% (cap 9.5%)
- PLUS – 6.84% (cap 10.5%)
- Consolidated Loans – weighted average of underlying loans rounded up to the next higher one-eighth of one percent
  - No cap

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### Subsidized Stafford Loan Eligibility

- Subsidized loans are need-based

COA – EFC – EFA = Loan Eligibility (Up to the Annual Subsidized Amount)

- Interest is subsidized during:
  - In-School
  - Grace periods
  - Deferments
- School must determine eligibility **before** eligibility for unsubsidized loans

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**Subsidized Loan Eligibility Limit**

*Limit on how many years a "first-time borrower" may receive subsidized loans.*

- Applies to first-time borrowers on or after July 1, 2013. A first-time borrower is one who -
  - Has no balance on any FFEL or Direct Loan on July 1, 2013, or
  - Receives first Direct Loan (any type) on or after July 1, 2013

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**Subsidized Loan Limit – 150% Rule**

- **Condition** - When student has received Direct Subsidized loans for a period of time that is equal to 150% of the published length of the student's current academic program
- **Result** - Student may not receive additional subsidized loans for enrollment in that program or any program of equal or lesser length

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**Subsidized Loan Limit – 150% Rule**

- Students maximum time to receive subsidized loans is established based on the length of the program the student is enrolled in
- Remaining subsidized eligibility is calculated by subtracting from maximum eligibility for the program, the time the student has already received subsidized loans for enrollment in any program

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**Determining When 150% Limit is Met**

Maximum  
Eligibility  
Period

-

Total  
Subsidized  
Usage  
Periods

=

Remaining\*  
Eligibility  
Periods

*\*150% Limit is met when Remaining Eligibility Period equals zero or less than zero*

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**Unsubsidized Stafford Loan Eligibility**

- Unsubsidized loans are *not* need-based

COA – EFA = Unsubsidized Loan Amount (Not to exceed the annual loan limits)

- May replace EFC in packaging
- Borrower is responsible for interest
  - May be paid or may allow to *capitalize*
- School determines eligibility *AFTER* awarding subsidized loans

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**Direct Unsubsidized Loan Eligibility**

- Student can only receive an unsubsidized loan (base or additional) for a loan period if the student has been awarded the full amount of his or her eligibility for a subsidized loan
- Student who is not awarded his or her full subsidized loan eligibility may not receive any unsubsidized loan for the same loan period

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**Unsubsidized Loan Flexibility**

- For dependent Undergraduates whose parents are unable to borrow PLUS loans
  - Due to adverse credit **or**
  - Due to exceptional circumstances
- May receive additional DL funds (same amounts as Independent Undergraduates)
- Flexibility extends for one Academic Year

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**Unsubsidized Loan Flexibility**

- FAA **may** use PJ to award Unsubsidized loans to dependent students without parental data
  - Parent **must** certify cessation of support and refusal to complete the FAFSA
  - School **must** document both items
  - **Not** a Dependency Override (D/O)
- Student may receive up to his/her maximum dependent loan eligibility (Unsubsidized)
- Student **not** eligible for any other Title IV aid

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**Refusal to award a Loan**

In Direct Loan Subsidized, Unsubsidized, and PLUS, a school has the authority to –

- Refuse to originate loan or
- Originate a loan at less than the amount requested by the student

- Must be done on an individual student basis
- Must provide student with written explanation

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**Awarding Subsidized Loans**  
**COA – EFC – EFA = Need**



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**Subsidized Eligibility - Tom**

Tom is a 1st year Dependent Student  
 (Annual Loan Limit = \$5,500)

COA	\$15,000
- EFC	1,200
- EFA	\$11,080
=Sub DL	\$ 2,720

Subsidized Loan can be up to \$3,500 of \$5,500, but cannot exceed need

- EFA is:
  - Pell of \$4,580
  - Scholarship of \$6,500
- Remaining Need = \$2,720

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**Awarding Unsubsidized Loans**  
**COA – EFA = Eligibility**



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#### Unsubsidized Eligibility - Tom

Tom is a 1st year Dependent Student  
(Annual Loan Limit = \$5,500)

COA	\$15,000
- EFA	\$13,800
=Unsub DL	\$ 1,200

Unsubsidized Loan can be up to \$2,780 (\$5,500 - \$2,720 in sub), but total aid cannot exceed COA

- EFA is:
  - Pell of \$4,580
  - Scholarship of \$6,500
  - Sub Loan of \$2,720
- Remaining Eligibility = \$1,200

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#### Awarding PLUS COA – EFA = Eligibility

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#### PLUS Loans

PLUS Loans:

- May replace EFC
- Have no Annual/Aggregate limit
- Borrower must have no adverse credit
- School must offer Sub and Unsub before awarding PLUS
- Amounts may not exceed COA – EFA

Available for:

- Parents of dependent undergrads
- Graduate/professional students

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### Processing DL Funds

#### Patrick's Parent PLUS Eligibility

Patrick - 1 <sup>st</sup> year Dependent student:	
COA	\$20,000
-EFA	<u>\$9,500</u>
=PLUS eligibility	\$10,500

- Loan limit = COA-EFA
- EFA now includes
  - \$4,000 Pell
  - \$3,500 Subsidized loan
  - \$2,000 Unsubsidized loan
- EFC not considered
- Patrick's parents may borrow \$10,500

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#### Patrick's Increased Unsubsidized Eligibility: (If Parents denied PLUS, or if Patrick were Independent)

Patrick - 1 <sup>st</sup> year student (loan limit \$9,500)	
COA	\$20,000
- EFA	<u>\$7,500</u>
= Remaining Need	\$12,500

EFA includes:

- \$4,000 Pell
- \$3,500 Subsidized loan

- EFC not considered
- Patrick may borrow the **lesser of:**
  - COA - EFA = \$12,500 , or
  - **\$9,500 - \$3,500 = \$6,000**  
(Annual Loan Limit-Sub Limit = Eligibility)

*In an Unsubsidized loan*

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#### Borrower Based Academic Year: BBAY 3



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**Clock Hour Program Loan Periods**

- Programs that **MUST** use Borrower-Based Academic Year #3 (**BBAY 3**)
  - Nonstandard terms Not Substantially Equal (NSE)
    - Difference in length of terms is more than 2 weeks
  - Non-term credit hour programs
  - **Clock-hour programs**

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**BBAY 3 Attributes**

- BBAY must meet minimum statutory definition of academic year
  - 900 clock-hours / 26 weeks
  - 36 quarter credit-hours / 30 weeks
  - 24 semester/trimester credit-hours / 30 weeks
- Academic year does not begin until the student begins enrollment
- A new annual loan limit is not regained until student completes both weeks & hours in definition of an academic year

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**Loan Periods**

- Maximum loan period
  - Generally school's academic year
  - If less than an academic year, in some cases, loan is the length of the program
- Minimum loan period
  - It's the lesser of
    - The Academic Year, OR
    - The student's program, OR
    - The remaining portion of the program



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**BBAY 3 Payment Periods**

- Cannot use more than two payment periods within a defined academic year
- Must complete BOTH hours and weeks to progress from one payment period to the next



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**BBAY 3 Payment Periods**

If program is one academic year or less

Academic Year Defined = 900 Clock-Hours/ 26 Weeks  
 Program = 750 Clock-Hours/ 20 Weeks

375 clock-hours/ 10 weeks    375 clock-hours/ 10 weeks

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**BBAY 3 Payment Periods**

If program is more than one academic year

*With remaining portion that is half an academic year or less...*

Academic Year Defined: 900 Clock hours / 30 Weeks  
 Program Length is 1200 Clock hours / 40 Weeks

450 hours / 15 weeks    450 hours / 15 weeks    300 hours / 10 weeks

If student accelerates, the 2nd AY for DL only contains the clock hours remaining as of when they completed the 1<sup>st</sup> AY

Remaining portion is a single payment period

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#### BBAY 3 Payment Periods

If program is more than one academic year  
 With remaining portion that is more than half an academic year but less than a full year...

Academic Year Defined: 900 Clock hours / 30 Weeks  
 Program Length is 1600 Clock hours / 54 weeks

450 hours 15 weeks	450 hours 15 weeks	350 hours 12 weeks	350 hours 12 weeks
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If student accelerates, the 2nd AY for DL only contains the clock hours remaining as of when they completed the 1<sup>st</sup> AY

Remaining portion is divided into 2 payment periods

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#### Calculation of Direct Loans

– **A COA reminder:**

- Unlike Pell, the loan COA is based on the costs for the loan period, which may not be a full academic year



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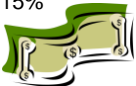
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#### Disbursing Direct Loan Funds

- Must be equal disbursements for multiple payment periods
- Cannot use cents when disbursing loans in COD
- In a single payment period loan period
  - Must make two disbursements (2<sup>nd</sup> when student completes half the weeks and hours) unless meet low Cohort Default Rate benefit
    - 3 years of official CDRs below 15%



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**Prorating Annual Loan Limits**



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**Prorating Annual Loan Limits**

Annual loan limits must be prorated when:

- The student is enrolled in a program that is shorter than a full academic year; OR
- The student is enrolled in a program that is one academic year or more in length, but is in a remaining period of study shorter than a full academic year

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**Loan Proration**

- Proration is **NOT** required for
  - PLUS loans
  - Graduate students
  - Teacher certification
  - Preparatory coursework
- Regardless of loan proration, school must not award more than student's loan eligibility

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**Programs Shorter than an Academic Year**

Multiply the applicable loan limit by the *lesser* of:

$$\frac{\text{Hours enrolled in program}}{\text{Hours in the defined academic year}}$$

OR

$$\frac{\text{Weeks enrolled in program}}{\text{Weeks in the defined academic year}}$$

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**Programs Shorter than an Academic Year**

Program Length is 600 Clock-hours / 22 weeks  
 Defined AY is 900 Clock-hours / 30 weeks

Hours:  $\$3,500 \times \frac{600}{900} = \$2,333$       Weeks:  $\$3,500 \times \frac{22}{30} = \$2,567$

*Hours is the Lesser*

\$2,333

300 Hours / 11 Weeks      300 Hours / 11 Weeks

\$1,167      \$1,166

\*Separate calculation for additional unsubsidized Direct Loans\*

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**Remaining Periods Shorter than an AY**

- If the remaining period of study consists of fewer clock hours than required in academic year definition



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Remaining Periods Shorter than an AY

- For all program types, multiply the applicable loan limit by:

$$\frac{\text{Hours remaining in program of study}}{\text{Hours required for defined AY}}$$

*Unlike proration for programs that are shorter than an academic year, there is no comparison of weeks and hours*

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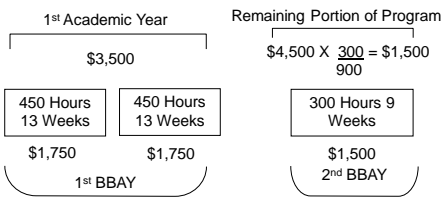
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Remaining Periods Shorter than an AY

1,200 Clock-Hour Program with 900 Clock-Hour / 26 Week Academic Year



\*Separate calculation for additional unsubsidized Direct Loans\*

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Transfer Students




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### Processing DL Funds

**Transfer Students**

- Three questions to consider
  1. Did the student attend a previous school?
  2. Did the student receive a Direct Loan at the previous school?
  3. Has the academic year at the previous school for which the loan was intended ended?

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**Transfer Students in Clock-Hour Programs**

When Overlapping Academic Years Occur

- Student withdraws from School A program before completing an academic year
- Student begins attendance at School B before academic year from School A is complete



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**Overlapping Academic Years**

- Student is limited to remaining portion of annual loan limit at School B until completion of the academic year from School A
- When the student completes School A's academic year at School B a new loan period may begin
  - If new loan period is less than a defined academic year then it must be prorated

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#### Obtaining Academic Year Dates

- A school can obtain specific begin and end dates of the prior school's academic year by:
  - obtaining documentation from the prior school, OR
  - look for the academic year dates of Direct Loans originated by the prior school on the "award detail information page" in COD

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#### Transfer Student Example

- Student attends School A with an academic year beginning 9/18/14 and ending 3/13/15
- Student withdraws from School A on 11/29/14
- As grade level 1 student, this student received \$1,750 in Sub and \$1,000 in Unsub
- Student begins attendance at School B as a grade level 1 student on 12/15/14

Student may only receive remaining portion of loan not used until completion of School A's academic year

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#### Transfer Student Example

School A: Used \$1,750 Sub and \$1,000 Unsub

**School A's Academic Year**  
9/18/14 → 3/13/15

**School B Loan Period**  
12/15/14 → 3/13/15

**School B: New Loan period may begin on**  
3/14/15

**Withdraw**  
11/29/2014

School B: Student eligible for remaining \$1,750 Sub and \$1,000 Unsub

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**Basic Principles**

1. The abbreviated loan period starts when the student starts at school B
2. The abbreviated loan period ends when the AY would have ended at School A and it *does not matter how many hours or weeks of instructional time the student has completed*
3. The amount that can be borrowed in the abbreviated loan period is the annual loan limit from School B minus any loan funds disbursed at School A for the overlapping Academic Year

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**Basic Principles**

4. The first disbursement of the remaining balance loan borrowed for attendance at School B would be disbursed at the beginning of the loan period. The loan must be multiply disbursed in at least two disbursements over the abbreviated loan period unless School B is subject to the low CDR rule, with the second disbursement of the loan disbursed at the calendar midpoint of the abbreviated loan period regardless of how many clock/credit hours or weeks of instructional time have been completed.

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**Basic Principles**

5. The next loan period at School B would begin the day after the last day of the abbreviated loan period.
6. The next loan period would be subject to the normal BBAY3 rules in that the student must complete hours and weeks of instructional time before qualifying for the second disbursement and to progress to the next academic year for annual loan limit purposes.

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**Resources**

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**Resources**

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**FSA Handbook**  
Volume 3, Chapters 1 and 5

**Dear Colleague Letters and Electronic Announcements**  
Federal Register dated May 16, 2013 (FR 28953)

**Site Links**  
<https://studentaid.ed.gov/types/loans>  
<https://studentloans.gov>

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**Resources**

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**Direct Loan Training on IFAP**  
[www2.ed.gov/offices/OSFAP/training/specific.html](http://www2.ed.gov/offices/OSFAP/training/specific.html)

**Clock-Hour Issues recorded webinar**  
[www2.ed.gov/offices/OSFAP/training/downloads.html](http://www2.ed.gov/offices/OSFAP/training/downloads.html)

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**Contacts**

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- *Atlanta* School Participation Team
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  - Main Number: 404-974-9303
  - Cassandra Weems (IIS) 404-974-9305
- *Atlanta* Training Officers
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**Contacts**

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- *Kansas* School Participation Team – KY, TN
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  - Jim Wyant (IIS) – 816-268-0431
- *Philadelphia* School Participation Team – VA
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  - Joe Kern (IIS) – 215-656-8566
- *Philadelphia* Training Officers - VA
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**Training Feedback**

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To ensure quality training we ask all participants to please fill out an online session evaluation

- Go to <http://s.zoomerang.com/s/DavidBartnicki>
  - Evaluation form is specific to David Bartnicki
- This feedback tool will provide a means to educate and inform areas for improvement and support an effective process for “listening” to our customers
- Additional feedback about training can be directed to [joann.borel@ed.gov](mailto:joann.borel@ed.gov)

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