

The nation's guarantors provide the following summaries to inform schools, lenders, and servicers of the latest *Common Manual* policy changes. These changes will appear in the manual's next annual update. These changes will also be incorporated into the June 2006 *Integrated Common Manual*. The *Integrated Common Manual* is available on several guarantor websites, and it is also available on NCHHELP's website at www.NCHHELP.org in the e-library. Please carefully note the effective date of each policy change.

Consolidation Loan Eligibility for Married Couples

The *Common Manual* has been revised to comply with statutory changes derived from the Higher Education Reconciliation Act of 2005 by eliminating the option for a married couple to consolidate their eligible loans jointly.

Affected Sections:	Chapter 15 Introduction 15.1.A Agreement to Guarantee Federal Consolidation Loans 15.2 Borrower Eligibility and Underlying Loan Holder Requirements 15.3.B Completing the Application
Effective Date:	Federal Consolidation loan applications received by the lender on or after July 1, 2006.
Basis:	Higher Education Act of 1965, Section 428C(a)(3)(C), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-02.

Disbursement Rules

The *Common Manual* has been updated to include the revised disbursement requirements derived from the HERA, as follows:

- The lender, at the request of a student enrolled in a study-abroad program that is approved for credit by the home institution, must disburse loan funds directly to the student or pursuant to an authorized power of attorney, *only after* the student's enrollment is verified by the lender or the guarantor. Loan disbursement may be made directly to a student enrolled in a foreign school *at the school's request* after the student's enrollment is verified by the lender or guarantor. Students enrolled in foreign schools may not execute a power of attorney for the purpose of endorsing their FFELP loan disbursement.
- Foreign schools are no longer automatically exempt from the delayed delivery and multiple disbursement requirements but may be exempted based on low cohort default rates.
- The delayed delivery requirement and the single-term multiple disbursement requirement will be waived for schools that have a cohort default rate of less than 10 percent for each of the three most recent fiscal years for which data are available.

Affected Sections:	6.4.A Multiple Disbursements and Exceptions 7.7 Loan Origination 7.7.B Multiple Disbursement 7.7.C Disbursement by Individual Check 7.7.E Disbursement for Students in Study-Abroad Programs or Foreign Schools 8.7.D Delayed Delivery
Effective Date:	The new rules for direct disbursement to students enrolled in foreign schools and study-abroad programs are effective for loans first disbursed on or after July 1, 2006.

The requirement for foreign schools to comply with the multiple disbursement and delayed delivery requirements is effective for loan periods beginning on or after July 1, 2006.

The waiver of the multiple disbursement rule for schools with cohort default rates of less than 10% for each of the three most recent fiscal years for which information is available is effective for any disbursement made on or after February 8, 2006.

The waiver of the delayed disbursement rule for schools with cohort default rates of less than 10% for each of the three most recent fiscal years for which information is available is effective for any disbursement made on or after February 8, 2006.

Basis: Higher Education Act of 1965, Sections 428(b)(1)(N), 428G(a)(3), 428G(b)(1), and 428G(e), as amended by the Higher Education Reconciliation Act (HERA) of 2005, Dear Colleague Letter GEN-06-02.

Student Eligibility

The *Common Manual* has been updated to state that a student who has been convicted of a state or federal drug-related offense that occurred while the student was enrolled in school and receiving Title IV aid is not eligible for Title IV funds.

Affected Sections: **5.1.B Student Eligibility Requirements**
5.7 Effect of Drug Conviction on Eligibility

Effective Date: For loan periods beginning on or after July 1, 2006.

Basis: Higher Education Act of 1965, Section 484(r)(1), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-05.

Lender Disbursement Through an Escrow Agent

The *Common Manual* has been revised with statutory changes derived from the Higher Education Reconciliation Act of 2005. Revised policy requires a lender that disburses loan proceeds through an escrow agent to require the escrow agent to disburse the loan proceeds no later than 10 days after the agent receives the proceeds from the lender.

Affected Sections: **7.7 Disbursing the Loan**

Effective Date: Loan proceeds paid by a lender to an escrow agent on or after July 1, 2006.

Basis: Higher Education Act of 1965, Section 428(i)(1), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-02.

When Federal Interest Benefits Will Be Paid

As a result of statutory changes derived from the Higher Education Reconciliation Act of 2005, the *Common Manual* has been revised to state that if a loan is disbursed through an escrow agent, the lender may begin accrual of interest benefits no earlier than three days before the date of the first disbursement of the loan. For these purposes, disbursement means disbursement to the school or direct disbursement to the borrower.

Affected Sections: **A.1.B When Federal Interest Benefits Will Be Paid**

Effective Date: Loan proceeds paid by a lender to an escrow agent on or after July 1, 2006.

Basis: Higher Education Act of 1965, Section 428(a)(3)(A)(v), as amended by the Higher Education Reconciliation Act (HERA) of 2005, Dear Colleague Letter GEN-06-02.

Reduced Claim Payment Rate on Default Claims

The *Common Manual* has been amended to comply with statutory changes that reduce the amount of insurance paid on a default claim submitted by a non-exceptional performer lender or servicer on loans

first disbursed on or after July 1, 2006. The guarantor will pay a default claim on such a loan at a rate of 97% of outstanding principal and eligible interest.

The *Common Manual* also has been amended to comply with statutory changes that reduce the amount of insurance paid on a default claim submitted by an exceptional performer lender or servicer to 99% of outstanding principal and eligible interest on default claims submitted on or after July 1, 2006. The guarantor will pay a default claim submitted by an exceptional performer lender or servicer prior to July 1, 2006, at the previous rate of 100% of outstanding principal and eligible interest.

Affected Sections:	3.9 Exceptional Performer Designation 13.3.A Claim Payment Amount 13.3.B Amount of Interest Purchased on Eligible Claim 13.3.C Amount of Interest Purchased on Returned Claims 13.4 Requests for Increase in Claim Payment
Effective Date:	Default claims submitted by a non-exceptional performer lender on loans first disbursed on or after July 1, 2006. Default claims submitted by an exceptional performer lender on or after July 1, 2006.
Basis:	Higher Education Act of 1965, Sections 428(b)(1)(G) and 428I(b)(1), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-02.

Rehabilitation of Defaulted Loans

The *Common Manual* has been updated to reflect that a borrower is eligible to rehabilitate a defaulted loan after making nine full monthly payments that are received by the guarantor or its contracted vendor within 20 days of the due date during a period of 10 consecutive months.

Affected Sections:	5.2.E Prior Default 13.7 Rehabilitation of Defaulted Loans
Effective Date:	Loan rehabilitation agreements beginning on or after July 1, 2006. Guarantors have the option of considering borrowers to have met the new rehabilitation standard if at least one of the borrower's payments under the rehabilitation agreement is made on or after July 1, 2006.
Basis:	Higher Education Act of 1965, Section 428F(a)(1)(A), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-02.

School as Lender Changes

A school must have been eligible to be a school lender as of February 7, 2006, and must have made a loan(s) on or before April 1, 2006, to participate as a lender in the Federal Family Education Loan Program (FFELP) on or after July 1, 2006. The *Common Manual* has been updated to include the revised school-as-lender criteria derived from the Higher Education Reconciliation Act (HERA) of 2005, as follows:

- The HERA revises the requirement that the school not make loans to more than 50% of its undergraduate students by limiting lending to graduate and professional students.
- The HERA eliminates the requirement that the school not make a loan to an undergraduate student unless the student provides evidence that he or she was denied a loan by a commercial lender.

Schools are not permitted to make loans to undergraduate students under the new provisions, so limitations on undergraduate lending are no longer necessary.

The following rules apply to schools acting as lenders in the FFELP on or after July 1, 2006:

- The school must not be a home-study school.

- The school may make subsidized and unsubsidized Stafford loans only to its graduate and professional students. The school may not make PLUS loans or Consolidation loans.
- The school is permitted to make loans only to its graduate and professional students.
- The school must offer origination fees or interest rates, or both, that are less than the statutory maximums for those fees or rates.
- The school must use the proceeds from its interest benefits and special allowance payments from the Department and from interest payments from its borrowers, as well as the proceeds from the sale or other disposition of its loans, for need-based grant programs, except for reimbursement of reasonable, direct administrative expenses. The school must ensure that the proceeds from the FFELP loan portfolio are used to supplement the non-federal grant funding sources rather than substitute for funds from those other sources.
- The school must not have a cohort default rate that exceeds 10% for each of the two most recent fiscal years—unless it has received a waiver on this restriction from the Department.
- The school must award any contract for financing, servicing, or administration of its FFELP loans on a competitive basis.
- The school must submit to the Department an annual lender compliance audit for any year in which the school engages in activities as an eligible lender. This requirement applies regardless of the size of the school's loan portfolio or annual loan volume.

In addition, a correction to previous policy removes the requirement that the school separate its lending function from other school functions and that the school employ at least one person whose responsibilities are limited to the lending function. The requirement is revised to require that the school employ one person whose responsibilities are limited to the administration of financial aid programs for students attending that school.

Affected Sections:
Effective Date:

3.2 Schools Acting as Lenders

In order to participate as a lender, the school must have met eligibility criteria as of February 7, 2006, and must have made a FFELP loan(s) on or before April 1, 2006.

New requirements are effective for schools acting as lenders on or after July 1, 2006.

The school lender must offer origination fees or interest rates, or both, that are less than the statutory maximums for those fees or rates for any loan first disbursed on or after July 1, 2006.

Basis:

Higher Education Act of 1965, Section 435(d)(2), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-02.

Teacher Loan Forgiveness Eligibility

The *Common Manual* has been revised to reinstate the previous increased teacher loan forgiveness amounts of up to \$17,500 for teachers in certain specialties and also reinstates the additional eligibility criteria that were imposed by previous legislation.

Affected Sections:
Effective Date:
Basis:

13.9.B Teacher Loan Forgiveness Program

October 1, 2005.

The Taxpayer-Teacher Protection Act of 2004, as amended by the Higher Education Reconciliation Act (HERA) of 2005.

Teacher Loan Forgiveness Eligibility

The *Common Manual* has been revised to state that a teacher who is employed in a nonprofit private school and who is exempt from state certification requirements may have such employment qualify for loan forgiveness if the teacher can demonstrate rigorous subject knowledge and skills by taking competency tests in the applicable grade levels and subject areas. The competency tests must be recognized by five or more states for the purpose of fulfilling the highly qualified teacher requirements,

and the score achieved by a teacher on each test must equal or exceed the average passing score of those five states. If a nonprofit private school teacher is subject to state certification, the teacher is not required to further demonstrate the knowledge and skills noted in this paragraph or to take additional competency tests.

Affected Sections: **13.9.B Teacher Loan Forgiveness Program**
Effective Date: Teacher Loan Forgiveness Applications received by the lender or guarantor on or after July 1, 2006.
Basis: Higher Education Act of 1965, Section 428J(g), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-02.

Change in Stafford Loan Interest Rate

The *Common Manual* has been amended to comply with current statutory language that requires loans first disbursed on or after July 1, 2006, be a fixed interest rate of 6.8%, as a result of legislative changes reflected in Public Law 107-139, enacted in February 2002.

Affected Sections: **7.4.A Current Stafford Interest Rates**
7.4.C Previous Stafford Interest Rates
Figure 7-1 Stafford Loan Interest Rates
10.3.A Length of the Grace Period
Effective Date: Stafford loans first disbursed by the lender on or after July 1, 2006.
Basis: Higher Education Act of 1965, Section 427A(l); Public Law 107-139.

Federal Consolidation Loan Borrower Eligibility Criteria

The *Common Manual* has been corrected to clarify that in order to qualify for a Federal Consolidation loan, a borrower must certify that he or she does not have another Federal Consolidation loan or Direct Consolidation loan application pending.

Affected Sections: **15.2 Borrower Eligibility and Underlying Loan Holder Requirements**
Effective Date: Federal Consolidation loan applications received by a FFELP lender on or after October 1, 1998.
Basis: §682.201(c)(1)(ii).

Deferment Eligibility Chart

The Deferment Eligibility Chart (Figure 11-1) has been revised by removing the bullets that indicate that for PLUS loans made before 7/1/87 and before July 1, 1987, a PLUS loan borrower who is seeking a deferment based on the status of the dependent student for whom the loan was obtained, qualifies for an in-school deferment if the student is attending school full time or half time.

Affected Sections: **Figure 11-1 Deferment Eligibility Chart**
Effective Date: None.
Basis: §682.210(c).