

ISSUE
June/July
2008

Loan Notes

Courtesy of American Education Services

THE PHEAA ADVANTAGE OUR INDUSTRY-LEADING SERVICES:

FINANCIAL AID SUPPORT

- PHEAA's KeystoneBEST Loan Program gives students and families the opportunity to evaluate many lenders and select the one that best meets their needs. The competition between lenders results in better borrower benefits and service.
- PHEAA provides a state of the art web-based loan application as well as the very latest in industry electronic processes.
- As more students rely on alternative or private loans to help finance their college education, PHEAA, in collaboration with our various lending partners, has developed a seamless school channel alternative loan process that mimics the FFELP KeystoneBEST Master Promissory Note (MPN) complete with e-signature capabilities for the 2008-09 academic year.
- PHEAA provides reconciliation services on behalf of schools, giving financial aid administrators more time to focus on what they do best—helping students.
- PHEAA's industry-leading processing systems are free of charge to schools, students and parents.
- PHEAA regularly visits postsecondary schools to provide customized training in financial aid matters.
- PHEAA's products, including federal forms, brochures and financial aid guides, are always provided free of charge to schools, students and parents.

DEFAULT PREVENTION

- PHEAA believes prevention through education builds awareness about the value of good credit and responsible debt management. Our public service campaign, YouCanDealWithIt, helps students manage their personal finances and understand the risks associated with loan and default debt.
- PHEAA's professionally-trained loan counselors work one-on-one with borrowers to help them avoid default. Each borrower's unique situation is assessed, and together, the counselor and borrower find the best repayment plan.

- PHEAA's cohort default rate for the most recent federal reporting period is 2.9%, well below the national average of 4.6%. Our focus on default prevention and maintaining a low default cohort, in turn, helps our schools manage their cohort rate by preventing their students from defaulting on their student loans.
- PHEAA offers free tools and resources for schools to develop their own default prevention plan. Members of the default prevention team work with individual schools to help them maintain program eligibility.

CUSTOMER SERVICE

- Our highly-trained staff is well-versed and committed to all aspects of student financial aid.
- PHEAA offers a comprehensive student aid service, which means that we're there for students and parents all the way from loan application through repayment.

COMMITMENT TO PENNSYLVANIA

- Over the past ten years, PHEAA has provided nearly \$1 billion in public service initiatives to the students, families, schools and taxpayers of Pennsylvania.
- Our loan programs are Pennsylvania-focused with lenders, postsecondary schools and PHEAA working together to ensure the future success of our students and at the same time, helping to build a strong economic future for the Commonwealth.
- PHEAA administers the State Grant Program at no cost to taxpayers with its business earnings, ensuring that every dollar appropriated goes directly to students and families. In addition, we have provided more than \$150 million of our business earnings to supplement the State Grant Program.
- We offer strategically placed regional offices across the state with dedicated staff to answer questions and provide hands-on direction to students, families, schools and colleges.

COMMUNITY INVOLVEMENT

- Each year, PHEAA offers more than 300 free financial aid events to guide students and families through the financial aid process.
- We partner with many community organizations, such as libraries, churches, civic organizations, YMCAs, state-government offices/agencies, and children & youth services to provide workshops, college fairs, informational events and training sessions.



American Education Services

H.R. 5715- ENSURING CONTINUED ACCESS TO STUDENT LOANS ACT OF 2008

ON MAY 7, 2008, THE PRESIDENT SIGNED H.R. 5715 INTO LAW (PUBLIC LAW 110-227). P.L. 110-227 - ENSURING CONTINUED ACCESS TO STUDENT LOANS ACT OF 2008- INCLUDES THE FOLLOWING PROVISIONS:

- Authorizes a \$2,000 increase in the annual unsubsidized Stafford loan limit for undergraduate students effective for loans first disbursed on or after July 1, 2008.
- Establishes an aggregate loan limit for dependent undergraduate students of \$31,000 - of which no more than \$23,000 - may be subsidized effective for loans first disbursed on or after July 1, 2008.
- Establishes an aggregate loan limit for independent undergraduate students of \$57,500 - of which no more than \$23,000 - may be subsidized effective for loans first disbursed on or after July 1, 2008.
- Gives parent PLUS borrowers the option to defer payments on a PLUS loan until six months after the date the student graduates, withdraws, or otherwise ceases to be enrolled at least half-time effective for loans first disbursed on or after July 1, 2008. The parent borrower may choose to have interest which accrues during this grace period either capitalized, or the parent may choose to pay the interest.

- Authorizes lenders to determine that borrowers of parent PLUS and Grad PLUS loans who, between January 1, 2007 and December 31, 2009 are no more than 180 days delinquent on mortgage loan payments or on medical bill payments, and are no more than 89 days delinquent on the repayment of any other debt meet a specified extenuating circumstance and may be considered creditworthy borrowers.
- Revises the Lender of Last Resort (LLR) provisions by permitting the U.S. Department of Education to designate an institution of higher education - as opposed to individual students- as eligible to participate in the LLR program until June 30, 2009, by prohibiting LLR loans from having more favorable terms than the maximum allowed for other FFELP loans, and by prohibiting lenders of last resort from offering inducements or marketing loans under the LLR program.

AGGREGATE LOAN LIMIT INCREASE FOR GRADUATE AND PROFESSIONAL STUDENTS IN HEALTH PROFESSIONS PROGRAMS

On April 14, 2008, the U.S. Department of Education (ED) announced, in *Dear Colleague Letter* (DCL) GEN-08-04/FP-08-04, available at ifap.ed.gov, an increase in the aggregate loan limit for graduate and professional students enrolled in certain approved health profession programs.

The aggregate loan limit for these students has been increased to \$224,000 [previously \$189,125], effective April 14, 2008. The increase is a conforming adjustment made as a result of the potential for increased borrowing that may result from the change in annual loan limits authorized by the Higher Education Reconciliation Act of 2005 (HERA).

A list of the eligible health profession programs along with additional information is provided in Chapter 6, Subsection 6.11.D, of the *Common Manual*, available at aesSuccess.org.

PREFERRED LENDER LISTS

The U.S. Department of Education (ED) provided, in *Dear Colleague Letter* (DCL) GEN-08-06/FP-08-06 which is available at ifap.ed.gov, responses to questions from schools about the Final Rules that were published on November 1, 2007 with regard to preferred lender lists. In publishing the Final Rules, ED expressed its view that a preferred lender list can be an effective tool in assisting families in the borrowing of federal student loans to finance the costs of postsecondary education because the list reflects a school's unbiased research to identify lenders providing the best combination of services and benefits.

Since November 1, 2007, the student loan marketplace has changed significantly. Some schools have advised ED of their difficulty in finding the required minimum of three lenders for a preferred lender list. Other schools have identified lenders for their preferred lender list but are concerned that one or more of those lenders may, in the future, choose not to make loans to the school's students and thereby reduce the list to less than the required minimum of three lenders. In addition, schools have asked if they are free to provide general information about lenders that will, or have made FFELP loans for attendance at the school.

In the DCL, ED advises that a school which has been unable to identify at least three lenders to meet the requirements of a preferred lender list may provide the names of the lenders that have indicated that they would provide FFELP loans to the school's students and parents. As an alternative approach, a school may provide a comprehensive list of lenders that have made loans to the school's students or parents in the past three to five years (or some other period) and that have indicated a willingness to continue making loans for attendance at that school. In using either approach, the school must make it clear that it is not endorsing the lenders and that the borrower may choose any FFELP lender that is willing to make loans to the borrower for attendance at that school. The school must not provide any additional information about the lender, including for example, the percentage of the school's loans made by the lender.

If a school meets the preferred lender list requirements and is then notified that one or more of the lenders on the list has decided to discontinue making loans to the school's students and parents, ED will take such circumstances into consideration until at least July 1, 2009, when determining compliance with the regulations. In addition, ED has determined that the regulations only require a minimum of three lenders as opposed to all lenders on a school's preferred lender list to be unaffiliated. However, ED believes that it would be helpful to consumers for a school to identify, as part of its preferred lender list disclosures, any affiliations among the lenders on the school's preferred lender list.

TRANSFER STUDENTS AND CLOCK HOUR PROGRAMS

The Final Rules article in the March/April 2008 Issue of *Loan Notes*, under Minimum Period for Certifying a Loan, addresses a student who transfers from a school into a program with clock hours or a non-term credit hour program in another school. The guidance provided by the U.S. Department of Education (ED) in regulations and in the preamble text to the Final Rules states that the student's "new" school may certify, if the student is otherwise eligible, a Stafford loan for the balance of the applicable annual loan limit for the balance of the academic year through the end of the academic year at the student's prior school. After the end of the prior school's academic year, the student enters a new academic year for annual loan limit purposes and the school's current school may certify loans for the next full academic year or for the remainder of the program, if less than a full academic year.

Please note that ED has provided updated guidance stating that the above change only applies if credit or clock hours are accepted in transfer toward the requirements of the new program.

2008-2009 FEDERAL STUDENT AID HANDBOOK

The U. S. Department of Education (ED) recently published Volume 1, entitled Student Eligibility, of the 2008-2009 Federal Student Aid (FSA) Handbook. The following chart details substantive changes, made primarily to Federal Family of Education Loan Programs (FFELP) information, in Volume 1 between the 2007-2008 and the 2008-2009 editions. For more information on these changes, visit ifap.ed.gov.

PAGE	CHANGE
1-1	Federal Student Aid contact information for policy questions has been added to the margin. Included is contact information for schools (fsa.customer.support@ed.gov , or 1.800.4ED.SFAP), and for students (1.800.4.FED.AID).
1-5	ED clarifies that an eligible student enrolled in a teacher certification program, may borrow up to \$5,500 in base Stafford loan funds. Independent students or students whose parent have been denied a parent PLUS loan, may borrow a maximum of \$7,000 in additional unsubsidized Stafford loan funds.
1-11	For the purpose of defining half-time enrollment, a school may choose to use as a definition, half of the minimum full-time standard established in the regulations even if this is less than half the full-time standard established by the school (e.g., if a school sets 14 semester hours as full time, it could use 6 semester hours -one half of the regulatory full-time minimum of 12- as half-time instead of 7). Previously, ED had used this definition of half-time enrollment for the Pell Grant program only.
1-11	Under Minimum Standards for full-time enrollment for an undergraduate student, ED added (1) programs that measure progress in credit hours and use nonstandard terms and (2) correspondence work. For a program that measures progress in credit hours and uses nonstandard terms, the minimum standard for full-time enrollment is the number of weeks of instruction in the term divided by the number of weeks of instruction in the academic year, multiplied by the number of credit hours in the academic year. For correspondence work, the minimum is an academic course load equivalent to the other minimum standards defined, and at least half of that load must be non-correspondence coursework that meets half of the school's requirement for full-time students.
1-73	Information has been added to clarify that a graduate student may borrow a Stafford and Grad PLUS loan from different (i.e., FFELP and Direct) loan programs.
1-74	The section on adverse credit history and PLUS loan eligibility has been expanded to include graduate/professional students in addition to parents.

ALEC UPDATE

Alec, the financial aid know-it-all, received a makeover on June 5, 2008! Alec 1.0, the first component of a new financial aid delivery product from AES, provides schools with the freedom to truly manage their loan certification process. This first release focuses specifically on the improved delivery of AES loan certification information to schools. Customized folders and views can now be configured at the institution and user level. Alec 1.0 will help schools organize and control their workflow, better managing their loan process. For more information, contact ESG at 800.443.0646 Option 4, Option 1.

2008-2009 LOAN PROCESSING INFORMATION

For lenders that have suspended participation in the Federal Family Education Loan Program (FFELP), AES has responded by revoking the applicable lender codes but maintaining the base MPNs on OneLINK. In addition, AES has inactivated the AES-As-Lender base Master Promissory Notes (MPNs) on OneLINK. In the event that your school encounters a borrower(s) who has a signed MPN for one of the lenders that has exited FFELP, the following is being provided to assist with the creation of new loan records for the affected borrower(s). The information detailed below will assist schools using Common Line or OneLINK in determining the processing for new loans.

COMMONLINE SCHOOLS

Schools that currently use a Financial Aid Management System (FAMS) to exchange certification information via CommonLine should continue to send records as 'Serial.' The OneLINK system will determine if an active base MPN exists for the borrower or if the lender code has been revoked. If the lender code has been revoked, OneLINK will create a new base MPN record with no lender name/code. Depending upon the processing preference used by each school, a new paper MPN will be sent to the borrower and/or the MPN record will be available on the AES Web site for completion.

OneLINK SCHOOLS

AES is no longer permitted to generate MPNs for new borrowers, i.e., for students who expressed an interest in student loans on the Free Application for Federal Student Aid (FAFSA). However, AES considers borrowers who have a loan balance with an AES guarantee on OneLINK to be renewal borrowers.

For FAFSA generated MPNs: If your school has requested AES to generate FAFSA-based MPN records for renewal borrowers, AES will determine if the renewal borrower has an active MPN on file or if the previous lender is still approved. If the FAFSA process cannot find an active MPN or an approved lender, OneLINK will create a base MPN without a lender code/name. Depending upon the processing preference used by each school, a new paper MPN will be sent to the borrower and/or the MPN record will be available on the AES Web site for completion.

For school generated MPNs: When a school attempts to manually create a serial loan record on OneLINK (LG0X on the OC/Webconnect or "Create Serial MPN" on OneLINK GUI) for a student who previously used a lender that is no longer valid, the user will encounter one of two scenarios:

1) If the lender was AES and the base MPN has been inactivated, the user will receive the error "Valid MPN does not exist." The OneLINK system will not allow the user to go any further. In order to create an additional loan record, a school must manually create a base MPN record on OneLINK. If the school uses OC/Webconnect, the type-in to create a base MPN record is LG00A. If the school uses OneLINK GUI, they should select "Application Add" from the left navigation menu.

2) If the user attempts to create a serial MPN record on an active base MPN for a revoked lender, OneLINK will create the serial record and immediately place the record on a "Staff Review." Loan Guaranty Services staff will review the record, and after determining that the lender is no longer participating, will remove the lender code from the record, change the record to a base MPN, and allow OneLINK to send a new base MPN with no lender code to the borrower for completion.

SPECIAL ALLOWANCE RATES FOR STAFFORD AND PLUS LOANS FOR THE QUARTER ENDING MARCH 31, 2008

PLEASE NOTE: THE APPLICABLE SPECIAL ALLOWANCE RATES FOR CONSOLIDATION LOANS AND FOR LOANS MADE OR PURCHASED WITH TAX-EXEMPT FUNDS ARE AVAILABLE AT IFAP.ED.GOV. The Treasury Bill (T-bill) rate for the quarter ending March 31, 2008 averaged 2.1%. None of the categories in the following chart, for loans made or purchased with taxable funds, will receive Special Allowance payments:

LOAN INTEREST RATES	SPECIAL ALLOWANCE ANNUAL RATE	SPECIAL ALLOWANCE QUARTERLY RATE	LaRS (LENDER REPORTING SYSTEM) PART III: SPECIAL ALLOWANCE CATEGORY COLUMN E*
7.00%	.00%	.00%	SA
7.00%	.00%	.00%	SB
8.00%	.00%	.00%	SB
7.00%	.00%	.00%	SD
8.00%	.00%	.00%	SD
8.02%	.00%	.00%	SD
8.17%	.00%	.00%	SD
7.00%	.00%	.00%	SE
8.00%	.00%	.00%	SE
8.02%	.00%	.00%	SG
8.05%	.00%	.00%	SG
7.42%	.00%	.00%	SH
6.62%	.00%	.00%	SJ
7.22%	.00%	.00%	SK

The Commercial Paper (CP) Rate for the same quarter averaged 3.24%. Although the loans in categories CA, CB, and CD, in the following chart, will not receive special allowance payments, the loans included in categories CE, CF, CH, CI, CJ, and CM are subject to the recapture of excess interest at the rate shown.

LOAN INTEREST RATES	SPECIAL ALLOWANCE ANNUAL RATE	SPECIAL ALLOWANCE QUARTERLY RATE	LaRS (LENDER REPORTING SYSTEM) PART III: SPECIAL ALLOWANCE CATEGORY COLUMN E*
6.62%	.00%	.00%	CA
7.22%	.00%	.00%	CB
8.02% (PLUS)	.00%	.00%	CD
6.62%	[1.64%]	[.4100%]	CE
6.80%	[1.82%]	[.4550%]	CE
6.80%	[1.22%]	[.3050%]	CF
7.22%	[1.64%]	[.4100%]	CF
8.02% (PLUS)	[2.14%]	[.5350%]	CH
8.50% (PLUS)	[2.62%]	[.6550%]	CH
6.80%	[2.37%]	[.5925%]	CI
6.80%	[1.77%]	[.4425%]	CJ
8.50% (PLUS)	[3.47%]	[.8675%]	CM

* For a detailed explanation of the Special Allowance codes, please visit the *Integrated Common Manual* (ICM) at aesSuccess.org. To access the ICM, click on 'Solutions for Lenders' on the left-hand side of the screen. Then click on 'Access financial aid publications' under the heading 'More Lender Solutions,' which is located in the middle column on the screen. Then select the most current update of the ICM. The Special Allowance codes are located in Appendix A, figure A-5.

For entities approved as not-for-profit holders, Special Allowance payments will be based on another code that ED sets in their respective demographic profiles. Please see the March/April 2008 Issue of *Loan Notes* for more information.

CONTACT

BUSINESS DEVELOPMENT & OPERATION/LOAN GUARANTY

Mon - Fri, 7:30 am to 9:00 pm ET

STUDENT/PARENT GRANT & LOAN INQUIRIES

800.692.7392
granthelp@aesSuccess.org
studentloans@aesSuccess.org

SCHOOL/LENDER INQUIRIES

800.443.0646
loanhelp@aesSuccess.org



Be Next.

American Education Services

1200 North Seventh Street, Harrisburg, Pa 17102-1444

AES helps students and families from every walk of life afford higher education, because we believe in the potential of everyone who wants to learn.

AES is a comprehensive student aid service, which means that we're there for students all the way. Starting from the time they apply for a loan, we deliver the funds, we stay with them through the academic years and guide them through successful repayment.

Because in making an education affordable, we do more than help students go to college. We guarantee the next generation of leaders, thinkers and doers.

Loan Notes has been developed and paid for by PHEAA/AES for informational purposes. The information contained herein is believed to be accurate at the time of printing. Due to the rapidly changing nature of the law and the industry, information contained in this document may become outdated and PHEAA/AES does not guarantee the accuracy of the information herein. You should verify that this information is correct.

LOAN NOTES ISSUE JUNE/JULY 2008