

ISSUE  
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# Loan Notes

Courtesy of American Education Services

## AES ANNOUNCES THE 2008 FALL TRAINING WORKSHOPS

AES will be presenting a series of Fall Training Workshops at ten locations throughout **Pennsylvania, Delaware, and West Virginia**. These sessions are offered free of charge and are available to all financial aid-related personnel at postsecondary institutions. **The following topics and items of interest will be presented by AES representatives:**

- Highlights of Recent Legislative Changes: ECASLA and HEOA
- Washington, D.C. Update
- RFI/RFP Process
- Alec 1.0 and eCourier
- PA State Grant & Special Programs Update

Online registration is available at [aesSuccess.org/training](http://aesSuccess.org/training). If you have any questions regarding registration for these workshops, please contact ESG staff at **800.443.0646, Option 4, Option 3**.

Thursday, Sept. 18	Tuesday, Sept. 23	Wednesday, Sept. 24	Thursday, Sept. 25	Tuesday, Sept. 30
PHEAA Harrisburg, PA	Location – To Be Determined Cranberry Township/Mars, PA	Holiday Inn Monroeville, PA	Ramada Inn Altoona, PA	Holiday Inn Lehigh Valley Breinigsville, PA
Wednesday, Oct. 1	Tuesday, Oct. 7	Wednesday, Oct. 8	Wednesday, Nov. 19	Thursday, Nov. 20
Best Western, Genetti Hotel & Conference Center Wilkes-Barre, PA	Drexelbrook Conference Center Drexel Hill, PA	Harry's Savoy Grill & Ballroom Wilmington, DE	University of Charleston Charleston, WV	Ramada Inn Morgantown, WV

## 2008 COMMON MANUAL AVAILABLE

The 2008 *Common Manual* is available at [aesSuccess.org](http://aesSuccess.org) through either the Alec School Portal or by selecting "**Financial Aid Products & Support for Schools**", clicking on "**Financial Aid Publications**" under AES School Services, and then clicking on "**Common Manual Information**". The 2008 e-Collection CD is also available and being sent to schools in Pennsylvania, Delaware, and West Virginia, and to lenders/servicers.

### IN ADDITION TO THE 2008 COMMON MANUAL, THE E-COLLECTION INCLUDES THE FOLLOWING:

#### Manuals & Forms

- Federal Student Aid Handbook: 2008–09 Application and Verification Guide, Volumes 1, 2, 4, 5, and 6 (Volume 3 was unavailable as of the production date)
- Federal Student Aid Handbook: 2007–08
- Common Forms

#### Law & Regulations

- Higher Education Act (HEA)
- Federal Regulations (Parts 668, 682, and 685)
- NCHelp Topical Index of the HEA and Regulations

#### Dear Colleague Letters and Announcements

GEN Letters, School Letters, Financial Partner Letters, Lender Letters, Dear GA Director Letters, Guarantor Letters, Disaster Letters, Announcements



American Education Services

2008 COMMON MANUAL AVAILABLE continued on reverse

# ENSURING CONTINUED ACCESS TO STUDENT LOANS ACT OF 2008 (ECASLA)

On June 17th, 2008 and on July 1st, 2008 the U.S. Department of Education (ED) provided webinars on the provisions of ECASLA and the implementation of those provisions and on the loan purchase programs, respectively. On June 18th, 2008, ED published *Dear Colleague Letter (DCL) GEN-08-08/FP-08-07*, available at [ifap.ed.gov](http://ifap.ed.gov), to address the provisions of ECASLA and to summarize the actions taken by ED to ensure that postsecondary students and their parents have access to federal student loans.

The subjects addressed in the webinars and in the DCL include:

## STAFFORD ANNUAL LOAN LIMITS

The following annual loan limits are effective for loans first disbursed on or after July 1, 2008 and for loan periods that include July 1, 2008 or begin after July 1, 2008:

1. **For dependent students (excluding students whose parents cannot borrow a PLUS loan)**, the additional unsubsidized loan amount increased from \$0 to \$2,000 for first-year, second-year, and for third-year and beyond undergraduates.
2. **For independent students (and for dependent students whose parents cannot borrow a PLUS loan)**, the additional unsubsidized loan amount increased from \$4,000 to \$6,000 for first and for second-year undergraduates and from \$5,000 to \$7,000 for third-year and beyond undergraduates.
3. **For independent students (and for dependent students whose parents cannot borrow a PLUS loan)** who are taking preparatory coursework to enroll in an undergraduate program, the additional unsubsidized loan amount increased from \$4,000 to \$6,000.

Please note that independent students and dependent students (whose parents cannot borrow a PLUS loan) are **not** eligible for the new \$2,000 additional unsubsidized Stafford annual loan limit available to dependent students in addition to the \$2,000 increase in the additional unsubsidized Stafford annual loan limit addressed in items #2 and #3 above.

For loan periods that crossover July 1, 2008, the increased annual loan limits only apply if either (1) the student's unsubsidized Stafford loan for the loan period is certified with a first disbursement on or after July 1, 2008 or (2) the school certifies a serial loan for the loan period and the serial loan has a first disbursement on or after July 1, 2008.

If students were packaged for the 2008-2009 academic year using the loan limits in effect prior to July 1, 2008, the school may either re-package an otherwise eligible student with the increased loan amounts or provide notification (e.g. via a website) to the student that he or she may be eligible for the increased unsubsidized Stafford loan amounts. If the school repackages, ED has stated that the students must be given an opportunity to refuse any increased unsubsidized loan amount.

## STAFFORD AGGREGATE LOAN LIMITS

The following aggregate loan limits are effective for loans first disbursed on or after July 1, 2008 and for loan periods that include or begin after July 1, 2008:

- **For dependent students (excluding students whose parents cannot borrow a PLUS loan)**, the aggregate loan limit has increased from \$23,000 to \$31,000. However, no more than \$23,000 may be in subsidized Stafford loans.
- **For independent students (and for dependent students whose parents cannot borrow a PLUS loan)**, the aggregate loan limit has increased from \$46,000 to \$57,500 of which no more than \$23,000 may be in subsidized Stafford loans.

## INADVERTENT OVERAWARDS

ED has provided clarification that a student who received an inadvertent overaward prior to July 1, 2008 must take action in order to regain eligibility. An inadvertent overaward occurs when a student receives Title IV loan funds in excess of annual or aggregate loan limits. **The student is subject to the annual and aggregate loan limits that exist in law at the time the inadvertent overaward was received.** In order to regain eligibility, the student must either repay in full the excess loan amount or make satisfactory arrangements with the holder of the loan to repay the excess amount. The second option generally involves the borrower either reaffirming the excess amount as a debt that the borrower recognizes and agrees to repay or consolidating the loan(s) that exceeded the annual or aggregate loan limit.

When resolution of the overpayment has been documented, the school may award additional Title IV funds to the student. However, the student may only be eligible for unsubsidized Stafford loan funds.

If a borrower who inadvertently exceeded annual or aggregate loan limits prior to July 1, 2008 takes action to resolve the overaward, a school may determine the student's eligibility for Stafford loan funds based on the increased annual and aggregate limits in effect for loans first disbursed on or after July 1, 2008.

## EXTENUATING CIRCUMSTANCES FOR PLUS LOAN ELIGIBILITY

Effective May 7, 2008, ECASLA provisions established that a lender may make an exception to an adverse credit determination for parent PLUS and Grad PLUS applicants if – during the period beginning January 1, 2007 and ending December 31, 2009 – **the applicant was or is 180 days or less delinquent on a mortgage loan or on medical bill payments for either the applicant or the applicant's family.** In addition, the applicant must not be more than 89 days delinquent on the repayment of any other debt.

The lender must retain a record of its basis for determining that the above extenuating circumstances exist and may use this determination to support an applicant's eligibility for PLUS loans. The applicant's eligibility is valid for the academic year. Lenders are also encouraged to re-examine the eligibility of applicants who may have been denied previously to determine if an exception now applies.

## GRACE PERIOD FOR PARENT PLUS LOAN BORROWERS

**For parent PLUS loans first disbursed on or after July 1, 2008**, ECASLA provides the borrower with the option of beginning repayment either 60 days after the loan is fully disbursed or 6 months after the dependent student – for whom the loan was borrowed – ceases to be enrolled at least half-time. Interest accrues on the loan from the date of disbursement.

**For parent PLUS borrowers who opt to delay repayment until 6 months** after the dependent student – for whom the loan was borrowed – ceases to be enrolled at least half-time, the interest that accrues on the loan prior to the delayed repayment start date may be paid, at the option of the borrower, either monthly or quarterly, or may be capitalized no more frequently than quarterly.

## AUTHORITY TO PURCHASE FFELP LOANS

ECASLA provided ED with the authority to purchase or enter into forward commitments to purchase Stafford and PLUS loans. Based on that authority, lenders were offered a loan sale option and a participation interest option by ED. The terms and conditions for both options have been published by ED, in conjunction with the U.S. Department of the Treasury and the U.S. Office of Management and Budget, in the **Federal Register, Vol. 73, No. 127 dated July 1, 2008**, which is available at [ifap.ed.gov](http://ifap.ed.gov).

To participate in either Program, each eligible lender must first submit a **Notice of Intent to Participate in the Program**. The Notice is provided as Appendix D to the *Federal Register* dated July 1, 2008 (a revised Notice is available in ED's Electronic Announcement dated July 11, 2008). If ED received the Notice from the lender on or before July 31, 2008, the lender may sell Eligible Loans, as defined below, which were first disbursed on or after May 1, 2008. If ED receives the Notice from the lender after July 31, 2008, the lender may sell Eligible Loans that are first disbursed on or after the date on which ED received the Notice. In filing the Notice with ED, an eligible lender is vested with the option to participate in both programs, the Loan Sale Program and the Participation Program. Each program requires a specific agreement be executed between the eligible lender and ED. Neither the filing of the Notice nor the execution of the agreements commits the lender to participate in either program.

To be considered an Eligible Loan for either Program, **the loan must be a subsidized or unsubsidized Stafford, parent PLUS, or Grad PLUS loan** for the 2008-2009 academic year and made for a loan period which begins on or after July 1, 2008, and where the first disbursement is made between May 1, 2008 and July 1, 2009. The loan must be fully disbursed by September 30, 2009. In addition, the loan can only have only eligible borrower benefits which include a not more than .25% interest rate reduction for ACH payments and/or unconditional upfront fee reductions.

The Loan Sale Program allows the eligible lender to "put", i.e., sell, Eligible Loans to ED. The eligible lender must enter into a **Master Loan Sale Agreement** with ED to participate in this program. ED published the Master Loan Sale Agreement in the Electronic Announcement dated July 11, 2008, and published a revised version on July 25, 2008. By execution of the Master Loan Sale Agreement, each lender represents to ED that it shall continue to participate in the FFELP and that at such time that funds become reasonably available from private sources; it will originate new FFELP loans or acquire FFELP loans made by other lenders after the date of ED's purchases from such eligible lender.

**ED will purchase each loan at a price equal to the sum of:** (1) the outstanding principal balance of the loan at the time of sale, (2) the accrued and unpaid interest at the date of sale, (3) the 1% loan fee, plus (4) \$75.00.

The second of the two options is the **Loan Participation Program**. This Program has a **minimum participation amount of \$50 million**. Under this Program, an eligible lender (also known as a Sponsor) transfers title to an Eligible Loan to a "**Custodian**". A "Custodian" must be a national or state-chartered bank that is an eligible lender and acceptable to ED. When the title is transferred to the Custodian by the eligible lender, the Custodian issues two participation certificates: a **Class A Participation Certificate** which is delivered to ED for the purchase of their participation interest and a **Class B Participation Certificate** which is delivered to the lender representing their remaining interest in the Eligible Loan. The purchase price, paid by ED for their participation interest, is equal to the outstanding principal balance of the Eligible Loan at the time of purchase.

The Class B Certificate also evidences the lender's right to redeem the Eligible Loan from the Custodian or to put the Eligible Loan to ED. The lender's payment to redeem the loan is ED's purchase price for participation in the loan plus their "participant's yield" less any amount previously paid on the loan. The "participant's yield" is based on the average of the bond equivalent of the 3-month commercial paper rate in effect for each day in the defined quarter plus 50 basis points multiplied by ED's participation interest.

To participate in this program, an eligible lender must also enter into a **Master Participation Agreement** with ED and the Custodian. ED published the Master Participation Agreement in the Electronic Announcement dated July 11, 2008, and the revised version was published on July 25, 2008. By execution of the Master Participation Agreement, each lender represents to ED that it shall continue to participate in the FFELP and that at such time that funds become reasonably available from private sources; it will originate new FFELP loans or acquire FFELP loans made by other lenders after the date of ED's purchases from such eligible lender.

Additional information on the terms and conditions of the Loan Sale Program and of the Loan Participation Program is available in the *Federal Register*.

This article will be continued in the next issue of *Loan Notes* with information on the **Lender of Last Resort** program.

# SPECIAL ALLOWANCE RATES FOR STAFFORD AND PLUS LOANS FOR THE QUARTER ENDING JUNE 30, 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](http://ifap.ed.gov).

The **Treasury Bill (T-bill) rate for the quarter ending June 30, 2008 averaged 1.71%**. No loans, made or purchased with taxable funds, in the categories of SA, SB, SD, SE, SG, SH, SJ, and SK, will receive Special Allowance payments:

The **Commercial Paper (CP) Rate for the same quarter averaged 2.75%**. 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%	(2.13%)	(.5325%)	CE
6.80%	(2.31%)	(.5775%)	
6.80%	(1.71%)	(.4275%)	CF
7.22%	(2.13%)	(.5325%)	
8.02% (PLUS)	(2.63%)	(.6575%)	CH
8.50% (PLUS)	(3.11%)	(.7775%)	
6.80%	(2.86%)	(.7150%)	CI
6.80%	(2.26%)	(.5650%)	CJ
8.50% (PLUS)	(3.96%)	(.9900%)	CM

\* For a detailed explanation of the Special Allowance codes, please visit the *Common Manual* at [aessuccess.org](http://aessuccess.org). To access the Manual, 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 *Common Manual*. 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.

## 2008 COMMON MANUAL AVAILABLE – continued from page 1

The 2008 *Common Manual* has been updated to incorporate **86 additional policies** since its last publication in July 2007. Many of the incorporated policies are based on the provisions of the **College Cost Reduction and Access Act (CCRAA)** and from the federal regulations published by the U.S. Department of Education (ED) in November 2007.

As updates to the text of the 2008 *Common Manual* are approved by the Common Manual Governing Board, an *Integrated Common Manual* (ICM) is produced. The ICM is a particularly useful tool. Updated on a monthly basis beginning in October 2008, the latest approved policies will be identified with underlines to text being added to the Manual and strikethroughs to indicate text being deleted from the Manual. The Summary of Changes section, located immediately before the Table of Contents, will provide the effective date/triggering event for each of the approved policy changes. As such, the ICM is an up-to-date and easy-to-use reference.

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.

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



**Be Next.**

American Education Services

1200 North Seventh Street, Harrisburg, Pa 17102-1444

## 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](mailto:granthelp@aessuccess.org)  
[studentloans@aessuccess.org](mailto:studentloans@aessuccess.org)

**SCHOOL/LENDER INQUIRIES**  
800.443.0646  
[loanhelp@aessuccess.org](mailto:loanhelp@aessuccess.org)

PHEAA/AES is one of many Guarantors participating in the Federal Family Education Loan Program (FFELP). A student or parent borrower may obtain a FFELP loan from a lender that uses PHEAA/AES as the Guarantor or any other participating lender.

These materials have 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.