



Loan Demons - And How to Exorcise Them!

MASFAA

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The "other" Loan Demons

- *In addition* to defaults:
- Bankruptcy
- Disability Discharges
- Loan Proration
- Aggregate Limits
- And sometimes even Annual Limits

Bankruptcy

- Eligible status:
 - ✓ BC - Bankruptcy Claim, no prior Default, Discharged
 - ✓ BK - Bankruptcy Claim, Active, no prior Default
 - ✓ DK - Defaulted, then Bankrupt, Discharged
 - ✓ OD - Defaulted, Bankrupt, Discharged (Chapters 7, 11, and 12)

Bankruptcy (cont.)

- Ineligible status:
 - ✓ Ineligible *only* if the loan was defaulted *and* not discharged. The ineligibility is not due to the bankruptcy but is due to the default
 - ✓ DB - Defaulted, Bankrupt, Active. Not dischargeable. (Chapter 13)
 - ✓ DO - Defaulted, Bankrupt, Active. Not Dischargeable. (Chapters 7, 11, and 12)

Bankruptcy - The Demons

- Default is not cleared if not discharged
- Must comply with Bankruptcy Reform Act
- Debt Management and need for additional counseling



Disability Discharge Permanent

- ✓ NSLDS eligible loan status DI (Disability) and DS (Defaulted, then Disability)
- ✓ Eligible for Title IV aid (other than loans)

To borrow new loan:

- ✓ Physician's certificate of ability to engage in substantial activity
- ✓ Borrower statement can't later discharge new loan

Disability Discharge Conditional

- ✓ Conditional period is 3 years from the date that the borrower became totally and permanently disabled
- ✓ Conditional period begins on the date of total and permanent disability, *not* on the date of discharge
- ✓ If loan discharged 7/1/01 to 6/30/02, must reaffirm loan conditionally discharged if borrows again during conditional period
- ✓ If loan discharged on or after 7/1/02, must resume payment if no longer disabled *or* borrows again *during* conditional period
- ✓ If defaulted loan reaffirmed or payment resumed will require satisfactory repayment before eligible Title IV

Disability Discharge - The Demons



- Does Borrower need to resume payment or reaffirm loans?
- Does M.D. say they *can* work (Repay)?
- No discharge unless substantial change to condition

Loan Proration

- Programs less than a full academic year
- Programs greater than one academic year with less than a full academic year remaining
- Based on actual credits divided by number of credits in a full academic year
- Revision not required if there is a change to credits after loan has been originated

Loan Proration - The Demons

- Identify when proration is needed
- Prorate correctly
- Document when an originated loan does *not* need proration
- Explain to students



Aggregate Limits

- Dependent Undergraduate - \$23,000
- Independent Undergraduate - \$23,000 subsidized and \$46,000 combined subsidized and unsubsidized
- Graduate - \$65,000 subsidized and \$138,500 combined subsidized and unsubsidized. Graduate limits include any loans received as undergraduates

Aggregate Limits (Exceptions)

- Increased eligibility Health professions
- Increased eligibility for Dependents when parent is denied PLUS
- Dependency changes
- Effect of exceeding undergraduate limits on Graduate eligibility

Aggregate Loan Limit Demons



- Check limits before awarding
- Special circumstances
- Consolidation loans
- Resolution when exceeds limits

Annual Limits - The Demons

- Transfer Students
- Overlapping loan periods
- Changes in grade level



The Exorcists



- Review of NSLDS data on ISIR
- NSLDS postscreening
- NSLDS transfer monitoring
- NSLDS Newsletter #6
- Use your FAMS
- Loan counseling
- Monitor, monitor, monitor
- Document, document, document