

The Direct Loan Program

Introduction

Under the William D. Ford Federal Direct Loan Program (Direct Loan Program), the U.S. Department of Education (the Department) makes loans to help students and parents pay the cost of attendance (COA) at a postsecondary school. This volume of the *Federal Student Aid Handbook* provides information to assist schools in determining student and parent eligibility for Direct Loans, counseling student borrowers, and awarding Direct Loans.

Changes for 2025-2026

We have made the following changes in *Volume 8* for 2025-2026:

- In Chapter 3, we have revised the discussion of loan periods to provide a limited exception to the longstanding requirement that the loan period for a Direct Loan may not include any terms in which the borrower is ineligible to receive Direct Loan funds.
- Also in Chapter 3, we have added a slightly revised and expanded version of guidance on the treatment of Direct Loan disbursements made after the date of a borrower's death that was previously in *Volume 4*, Chapter 2 of the *FSA Handbook* under the heading "Checking Eligibility at the Time of Disbursement." Because this guidance is specific to Direct Loans, we believe *Volume 8* is a more appropriate location.
- In Chapter 5, we have revised Example 6 to reflect the limited exception to the requirement that a loan period may not include terms in which the borrower is ineligible (see Chapter 3 changes above).
- In Chapter 7, we have revised the discussion of transfer students and abbreviated loan periods to clarify that in some circumstances a transfer student may be eligible to receive more Direct Loan funds for the program at the new school than a non-transfer student would be eligible to receive for that same program.

Except as noted above, there are no other substantive changes to *Volume 8* for 2025-2026.

Chapter 1

Student and Parent Eligibility for Direct Loans

Overview

To be eligible for Direct Loans, a student must be enrolled on at least a half-time basis at a school that participates in the Direct Loan Program, and students and parents must meet the general federal student aid eligibility requirements covered in *Volume 1* of the *Federal Student Aid Handbook*. This chapter discusses other eligibility requirements that are specific to the Direct Loan Program.

Direct Loan Program Regulations

[34 CFR Part 685](#)

Direct Subsidized Loans and Direct Unsubsidized Loans

Only students who have financial need may receive Direct Subsidized Loans. The federal government does not charge interest on Direct Subsidized Loans while the borrower is enrolled on at least a half-time basis, during the grace and deferment periods, and during certain other periods (for example, during certain periods of repayment under certain repayment plans that determine the required monthly payment amount based on the borrower’s income and family size).

If a student has received a determination of need for a Direct Subsidized Loan in an amount of \$200 or less, a school may choose not to originate a Direct Subsidized Loan and may instead include that amount as part of a Direct Unsubsidized Loan.

Financial need is not an eligibility requirement to receive a Direct Unsubsidized Loan. The federal government generally charges interest on Direct Unsubsidized Loans during all periods, with limited exceptions (for example, during periods of deferment for cancer treatment).

To be eligible to receive a Direct Subsidized Loan or Direct Unsubsidized Loan, an undergraduate student attending a school that participates in the Federal Pell Grant Program must first have received a determination of their Pell Grant eligibility for the period of enrollment for which the student is requesting a loan.

No Minimum Age To Receive a Direct Loan

Students who are minors may receive Direct Loans, but they may not refuse to repay the loans based on a “defense of infancy” (that is, by claiming that they were too young to enter into the contract of signing the promissory note).

No Defense of Infancy

Higher Education Act (HEA) Sec. 484A(b)(2)

Requirement To Offer Both Subsidized and Unsubsidized Loans

Direct Subsidized and Direct Unsubsidized Loans are two components of a single loan program. A school may not choose to make only Direct Subsidized Loans or only Direct Unsubsidized Loans available to its eligible students. For more

information, see the discussion under “Direct Subsidized Loans and Direct Unsubsidized Loans” in [DCL GEN-11-07](#).

Direct Unsubsidized Loans for Students Whose Parents Have Ended Financial Support or Refuse To File a FAFSA Form

If you verify that the parents of a dependent undergraduate student have refused to complete the parental information sections of the *Free Application for Federal Student Aid* (FAFSA) form or that they have ended financial support for the student, you may make a professional judgment decision to offer the student a Direct Unsubsidized Loan in an amount up to the applicable annual loan limit for a dependent undergraduate. For instance, under these circumstances a dependent second-year undergraduate could receive up to \$6,500 in Direct Unsubsidized Loan funds (see Chapter 4 of this volume for information on annual loan limits). However, the student may not receive Direct Subsidized Loans or aid from any of the other *Title IV* programs.

Self-certification from the dependent student is not sufficient to verify that the parents have ended financial support or have refused to complete the FAFSA form. In most cases, this requirement can be met by obtaining a signed and dated statement from one of the student’s parents. For more information, see the discussion under “Dependent students without parent support” in the “Professional Judgment” section of Chapter 5 of the *Application and Verification Guide*.

Direct PLUS Loans

Direct PLUS Loans are available to graduate and professional students, and to the parents of dependent undergraduate students.

A parent may receive a Direct PLUS Loan only to pay for the education costs of a dependent undergraduate student who meets the eligible student definition. A parent borrower must meet the same citizenship and residency requirements as a student. Similarly, a parent who is in default on a *Title IV* loan, or who owes an overpayment on a *Title IV* grant, is ineligible for a Direct PLUS Loan unless they have made satisfactory arrangements to repay the loan or grant. A parent who had a prior *Title IV* loan discharged for total and permanent disability must meet the same eligibility requirements outlined for student borrowers in *Volume 1*, Chapter 3. Finally, a parent is not eligible for a Direct PLUS Loan if the federal government holds a judgment lien on their property or if the parent is incarcerated. Note, however, that a parent’s ineligibility for a Direct PLUS Loan does not affect the student’s eligibility for other *Title IV* aid, assuming that the student is otherwise eligible.

Requirement To Offer Direct PLUS Loans to Both Student and Parent Borrowers

Schools may choose whether to offer Direct PLUS Loans. If your school chooses to participate in the Direct PLUS Loan Program and has both undergraduate and graduate or professional students, you must make Direct PLUS Loans available to both the parents of dependent undergraduate students and to graduate or professional students. You may not limit Direct PLUS Loan borrowing only to parents or only to graduate or professional students. For more information, see the discussion under “Direct PLUS Loans” in [DCL GEN-11-07](#).

Definition of “Parent” for Direct PLUS Loan Purposes

If they meet all other Direct PLUS Loan eligibility requirements, the following individuals can borrow Direct PLUS Loans on behalf of a dependent undergraduate student:

- The student’s biological parent;
- The student’s legal adoptive parent; or
- The student’s stepparent (spouse of the student’s biological or legal adoptive parent at the time of application), but only if the stepparent is required to provide their information on the FAFSA form in accordance with the instructions on the FAFSA form.

Grandparents and other family members are not eligible to take out Direct PLUS Loans on behalf of a dependent undergraduate student unless they have legally adopted the student.

In addition to the parent(s) whose resources are reported on a student’s FAFSA form, any otherwise eligible biological or legal adoptive parent of the dependent undergraduate student can also take out a Direct PLUS Loan on the student’s behalf, even if that parent’s information is not reported on the FAFSA form.

Note also that more than one parent can take out a Direct PLUS Loan on behalf of the same dependent undergraduate

student. For example, if a student's biological or legal adoptive parents are divorced, they may decide to each take out a Direct PLUS Loan for an agreed upon amount (not to exceed the student's COA, minus other financial assistance (OFA)) to help pay for the cost of the student's education.

Requirement for Dependent Students To File a FAFSA Form

In all cases, the dependent student on whose behalf a parent has applied for a Direct PLUS Loan must have filed a FAFSA form and received an Institutional Student Information Record (ISIR) or FAFSA Submission Summary (see Chapter 1 of the *Application and Verification Guide* for information on the ISIR and FAFSA Submission Summary). This requirement ensures that student eligibility data matches are conducted to verify that the dependent student on whose behalf the parent is borrowing:

- Is not in default on a *Title IV* loan and does not owe an overpayment on a *Title IV* grant;
- Has had their Social Security number verified by the Social Security Administration; and
- Has had their citizenship status confirmed by either the Social Security Administration or the Department of Homeland Security.

Note that this requirement is for the **student** to submit a FAFSA form. It is not a requirement for the parent borrower to submit a FAFSA form in the parent's name, and it does not preclude an otherwise eligible parent whose information is not included on the FAFSA form (sometimes referred to as a "non-custodial" parent) from obtaining a Direct PLUS Loan.

Before originating a Direct PLUS Loan for a parent borrower, schools must review the ISIR or FAFSA Submission Summary of the dependent student to ensure there are no student eligibility issues that must be resolved before the parent can receive the Direct PLUS Loan.

Adverse Credit History

An individual with an adverse credit history is prohibited from obtaining a Direct PLUS Loan unless they meet additional eligibility requirements. The Department obtains a credit report on each student or parent applicant for a Direct PLUS Loan. An applicant is considered to have an adverse credit history if:

- They have one or more debts with a total combined outstanding balance greater than \$2,085 that (1) are 90 or more days delinquent as of the date of the credit report, or (2) have been placed in collection or charged-off during the two years preceding the date of the credit report; or
- During the five years preceding the date of the credit report, the applicant has been determined to be in default on a debt; has had debts discharged in bankruptcy; or has been the subject of foreclosure, repossession, tax lien, wage garnishment, or write-off of a *Title IV* debt.

For Direct PLUS Loan eligibility purposes, "charged-off" means a debt that has been written off as a loss, but that is still subject to collection action. "In collection" means a debt that has been placed with a collection agency by a creditor or that is subject to more intensive efforts by a creditor to recover amounts owed from a borrower who has not responded satisfactorily to the routine demands of the creditor's billing procedures.

An applicant cannot be denied a Direct PLUS Loan because they have no credit history. That is, the absence of a credit history is not considered to be adverse credit.

There are two means by which a Direct PLUS Loan applicant with an adverse credit history can still qualify for a Direct PLUS Loan. One option is for the applicant to obtain an endorser who doesn't have an adverse credit history. An endorser is someone who agrees to repay the Direct PLUS Loan if the borrower doesn't repay it. For a parent borrower, the endorser may not be the dependent student for whom the parent is borrowing.

As an alternative to obtaining an endorser, an applicant who has been determined to have an adverse credit history may also qualify for a Direct PLUS Loan by submitting documentation to the Department showing that there are extenuating circumstances associated with the adverse credit. The Department has the final decision on determining whether extenuating circumstances exist.

A borrower who qualifies for a Direct PLUS Loan by obtaining an endorser or documenting to the satisfaction of the Department that extenuating circumstances exist must also complete PLUS Loan Credit Counseling, as discussed below.

If your school participates in the Direct PLUS program but a student's parent cannot obtain a Direct PLUS Loan, the student is allowed to borrow additional unsubsidized funds (see "Criteria for Dependent Students to Receive Additional Direct Unsubsidized Loan Funds" in Chapter 4 of this volume).

Definition of "Adverse Credit History"

[34 CFR 685.200\(c\)\(2\)\(viii\)\(B\)](#)

[34 CFR 685.200\(b\)\(5\)](#)

Required Counseling for Direct PLUS Loan Applicants With Adverse Credit

Any student or parent Direct PLUS Loan applicant who has an adverse credit history but qualifies by obtaining an endorser or documenting that there are extenuating circumstances must also complete [PLUS Loan Credit Counseling](#) on the Department's [StudentAid.gov](#) website.

Adverse Credit History and Default

Although a default on a *Title IV* loan will generally appear in a student or parent Direct PLUS Loan applicant's credit record and result in the individual being determined to have an adverse credit history, being in default on a *Title IV* loan and having an adverse credit history are separate eligibility issues. A Direct PLUS Loan applicant who is identified through the Department's National Student Loan Data System (NSLDS) as being in default on a *Title IV* loan and who has also been determined to have an adverse credit history (due to the default and/or other adverse credit conditions) cannot qualify for a Direct PLUS Loan simply by obtaining an endorser or by providing acceptable documentation of extenuating circumstances. The applicant must also separately resolve the default status by one of the means discussed under "Resolving Default Status" in *Volume 1, Chapter 3*.

In some cases, the Direct PLUS Loan credit check may not reveal a default on a *Title IV* loan, particularly if the default is not recent. If a student or parent Direct PLUS Loan applicant who is identified in NSLDS as being in default on a *Title IV* loan does not have any other adverse credit issues, the applicant will pass the PLUS credit check. In this circumstance you cannot assume that the approved credit check result supersedes the information in NSLDS. The default must be resolved before you can disburse Direct PLUS Loan funds or other *Title IV* aid to the applicant.

Direct PLUS Loan Application

Schools that offer Direct PLUS Loans have the option of requiring student and parent Direct PLUS Loan applicants to complete the [Direct PLUS Loan Application](#) (formally known as the "Federal Direct PLUS Loan Request for Supplemental Information") on the Department's [StudentAid.gov](#) website as the first step in applying for a Direct PLUS Loan. The Direct PLUS Loan Application collects the requested loan amount, the period of enrollment for which the loan is intended, and other information related to processing the requested Direct PLUS Loan.

Use of the Direct PLUS Loan Application on StudentAid.gov is not required. Schools may choose to develop their own processes for obtaining the information needed to originate Direct PLUS Loans.

Although the Department's FAFSA Processing System (FPS) matches student Direct PLUS Loan applicants against NSLDS to determine if they are in default on a *Title IV* loan, it does not perform this match for parent Direct PLUS Loan applicants. However, the Department conducts an NSLDS default check on all Direct PLUS Loan applicants (both students and parents) who complete the Direct PLUS Loan Application on StudentAid.gov.

Schools that use the Direct PLUS Loan Application are notified of the result of the NSLDS default check through the Common Origination and Disbursement (COD) System. The result is reported as one of the following values:

- "N" = The borrower is not in default on any *Title IV* loan.

- "Y" = The borrower is in default on a *Title IV* loan.
- "E" = Unable to determine if the borrower is in default on a *Title IV* loan.

If the result is "N," a student or parent Direct PLUS Loan applicant who meets all other Direct PLUS Loan eligibility requirements may receive a Direct PLUS Loan.

If the result is "Y," the student or parent may not receive a Direct PLUS Loan (or any other *Title IV* aid) until the default status is resolved (see "Resolving Default Status" in *Volume 1*, Chapter 3 for more information).

A result of "E" may be reported if for some reason it was not possible to conclusively determine that the applicant is not in default. An "E" result is most commonly due to temporary systems issues involving the interface between the Direct PLUS Loan Application and NSLDS. In this case, if the Direct PLUS Loan applicant is a graduate or professional student and the NSLDS match performed by the FPS indicates that the student is not in default, you may rely on the results of that check. If the applicant is a parent, you must separately check NSLDS to confirm that the parent is not in default before originating a Direct PLUS Loan.

IMPORTANT: If you do not require Direct PLUS Loan applicants at your school to complete the Direct PLUS Loan Application, you must check NSLDS for all **parent** Direct PLUS Loan applicants to confirm that they are not in default before originating Direct PLUS Loans for these individuals.

Direct PLUS Loan Application NSLDS Default Check

[October 18, 2016 Electronic Announcement](#)

Ineligible Borrowers

The Department may determine that a borrower was ineligible to receive a Direct Loan if, at the time the loan was made and without the knowledge of the Department or the school, the borrower (or the dependent student on whose behalf a parent received a Direct PLUS Loan) provided false information, was convicted of or pled no contest or guilty to a crime involving fraud in obtaining *Title IV* funds, or took actions that caused the borrower or student to receive:

- Loan funds for which they were wholly or partially ineligible;
- Interest benefits on a loan for which they were ineligible; or
- Loan funds for a period of enrollment for which they were ineligible.

If the Department determines that a Direct Loan borrower was ineligible, the Department sends the borrower a demand letter that requires the borrower to repay some or all of the loan the borrower received, as applicable, within 30 days. If the borrower fails to comply with the letter, the borrower is considered in default on the entire loan.

Ineligible Borrowers

[34 CFR 685.211\(e\)](#)

Direct Loans at Multiple Schools

A student who is concurrently enrolled and eligible at more than one school may receive Direct Loans at each school. If the student is receiving Direct Subsidized Loans or Direct Unsubsidized Loans, the schools that the student is attending are responsible for coordinating to make sure that the total amount of the loans the student receives does not exceed the applicable annual or aggregate loan limit. In addition, the schools must ensure that there is no duplication of non-institutional costs when determining the student’s COA. Note that in the situation where a student is concurrently enrolled and eligible at more than one school, which is different than the consortium arrangements discussed in *Volume 2*, Chapter 2, loan funds awarded at one school are not to be included as OFA by any other school the student is attending when determining the student’s loan eligibility for the same period.

Exceptions to the “Regular Student” Requirement for Direct Loans

As explained in *Volume 1*, Chapter 1, one of the eligibility requirements for a student to receive *Title IV* aid is that the student must be enrolled at an eligible school for the purpose of obtaining a degree or certificate offered by the school. Such a student is known as a “regular student.” However, there are two limited exceptions to this requirement for Direct Loans: preparatory coursework and teacher certification coursework.

Regular Student

[34 CFR 600.2](#)

Preparatory Coursework

A student may receive a Direct Subsidized Loan or Direct Unsubsidized Loan (or a parent may receive a Direct PLUS Loan on behalf of a dependent student) for preparatory coursework that the school has documented is necessary for the student to enroll in an eligible program. The preparatory courses must be offered as part of an eligible program offered by the school, though the student does not have to be enrolled in that program. A school may not award Direct Loans for standalone courses that do not count towards an eligible program and exist solely to serve as preparatory coursework.

A student who is enrolled at least half time in preparatory coursework as described above is eligible to receive loans for a maximum of one consecutive 12-month period (not per program) beginning on the first day of the loan period. If the consecutive 12-month period of preparatory coursework spans more than one academic year, the student may receive more than one annual loan limit.

To be eligible for loans under this exception, the student must be taking classes that are a prerequisite for admission. A student who is only taking courses to raise their grade-point average in order to be admitted does not qualify.

Preparatory Coursework

[34 CFR 668.32\(a\)\(1\)\(ii\)](#)
[34 CFR 685.203\(a\)\(6\)](#) and [\(c\)\(2\)\(vi\)](#)

Preparatory Coursework at a Different School

A student may take the preparatory courses at School A (as long as the courses are part of an eligible program there) that are required for admission into a program at School B. As the awarding school, School A may require documentation from School B that these courses are required for the student’s subsequent enrollment.

Volume 8, Chapter 1, Example 1: Eligible Preparatory Coursework

A student who previously received a bachelor’s degree with a major in mathematics now wants to enroll in a graduate computer science program. The student needs 12 more semester hours of computer science coursework to meet the admission requirements of the school that offers the program. The student enrolls in courses that are part of one of the school’s undergraduate degree programs, but is not enrolled for the purpose of receiving a degree and therefore is not a regular student. However, because the coursework is necessary for enrollment in the graduate program, the student may receive Direct Loans for this coursework (for a maximum of one consecutive 12-month period).

Volume 8, Chapter 1, Example 2: Ineligible Preparatory Coursework

A nursing school offers a 2-year program leading to a diploma. This is the only *Title IV* eligible program offered by the school. To be admitted to the program, students must have:

- Received a high school diploma or general educational development (GED) certificate;
- Completed Human Anatomy and Physiology with a minimum grade of “C”;
- Completed college level English Composition with a minimum grade of “C”; and
- Completed college level Algebra with a minimum grade of “C”.

For applicants who have not successfully completed post-secondary courses in Human Anatomy and Physiology, English Composition, and Algebra, the school offers 8-week courses that upon successful completion qualify applicants for admission. Because the school does not offer a *Title IV* eligible program that includes its courses in Human Anatomy and Physiology, English Composition, and Algebra, students enrolled in those stand-alone courses are not eligible to receive *Title IV* funds.

Teacher Certification Coursework

A student may receive a Direct Subsidized Loan or Direct Unsubsidized Loan (or a parent may receive a Direct PLUS Loan on behalf of a dependent student) for courses that the student must complete to receive a professional credential or certificate from a state that is required for employment as an elementary or secondary school teacher in that state, even though the school where the student takes the courses does not award a degree or other credential upon the completion of that coursework.

Teacher Certification Coursework

Direct Loan Eligibility After an Enrollment Status Change

If a student who received a disbursement of Direct Loan funds prior to the first day of classes of a payment period begins attendance on a less-than-half-time basis, there is no requirement for the school or the student to return the loan funds as long as:

- The student began attendance in at least one course during the payment period; and
- At the time of the loan disbursement the student was enrolled (registered) for classes on at least a half-time basis.

However, the school must not make any subsequent disbursements of the loan unless the student resumes enrollment on at least a half-time basis during the payment period.

A student who is no longer enrolled at least half time may not receive as a late disbursement any second or subsequent disbursement of the loan.

Note that different requirements apply if a student who received a Direct Loan disbursement prior to the first day of classes fails to begin attendance in any classes. See “When A Student Fails to Begin Attendance” in *Volume 4*, Chapter 3.

If a student does not withdraw but ceases to be enrolled on at least a half-time basis, a school may make a late disbursement of a Direct Loan for costs incurred by the student for a period in which the student was eligible. However, this does not apply if the student dropped all future classes or modules, because the student never began classes as a half-time student.

Title IV program funds (including Direct Loans) are disbursed to a student on the presumption that the student will attend the hours for which aid has been awarded. Therefore, a school is not required to delay the disbursement of a Direct Loan until a student has begun attendance in enough hours to establish half-time enrollment status. However, if a school has not yet made a Direct Loan disbursement to a student who has dropped classes, and the school determines that the student never began attendance in enough classes to establish half-time enrollment status, the school may not make a first disbursement of a Direct Loan to that student.

Likewise, if a student who was enrolled in a series of modules drops all future classes before beginning attendance in enough modules to establish half-time enrollment status, the school may not make a first disbursement of a Direct Loan because the student never began attendance on at least a half-time basis. If a student who dropped to less-than-half-time status resumes enrollment on a half-time basis during the payment period or period of enrollment, the school may make remaining disbursements of a Direct Loan if the school documents (1) the student’s revised COA, and (2) that the student continues to qualify for the entire amount of the loan, despite any reduction in the student’s COA caused by the temporary cessation of enrollment on at least a half-time basis.

Late Disbursements for Students Who Cease To Be Enrolled at Least Half Time

[34 CFR 668.164\(j\)\(3\)\(iii\)](#)

Direct Loan Disbursements to Students Who Temporarily Cease Half-Time Enrollment

[34 CFR 685.303\(b\)\(3\)\(iv\)](#)

Direct Loan Eligibility After Inadvertent Overborrowing

A student who has inadvertently received Direct Loan funds in excess of the annual or aggregate loan limits is ineligible to receive any *Title IV* funds until the overborrowing is resolved. As explained in more detail below, the student can regain eligibility for aid by repaying the amount that exceeded the annual or aggregate loan limits, or by making satisfactory arrangements with the loan servicer to repay the excess amount.

The school where the student is requesting additional *Title IV* funds is responsible for identifying the loan(s) that resulted in the overborrowing, determining that the overborrowing was inadvertent, discussing the overborrowing with the student, and resolving any discrepancies in the information that is obtained. If the loan(s) that caused the student to exceed the annual or aggregate loan limit were received for attendance at a different school, in some cases it may be necessary for the school the student is currently attending to contact the other school for additional information in order to determine that the excess borrowing was inadvertent.

Examples of circumstances that may have resulted in a student inadvertently exceeding an annual or aggregate loan limit include, but are not limited to:

- School processing errors;
- Missing or incorrect NSLDS information; or
- Unintentional student error or omission.

Overborrowing is not considered inadvertent if there is any evidence that it was the result of deliberate action on the part of the school that determined the borrower's eligibility for the loan, or on the part of the borrower who received the loan. If a school determines that the overborrowing was the result of deliberate action on the part of another school or the borrower, it must notify the Department's Office of the Inspector General and provide evidence (see the contact number at the end of this section).

Once the school where the student is requesting *Title IV* funds has documented that the student has either repaid the excess loan amount or has made satisfactory arrangements to repay the excess amount, it may award additional aid. For Direct Loans, the student's eligibility is retroactive to the beginning of the academic year in which the overborrowing was resolved.

A student who regains eligibility after inadvertent overborrowing may or may not be eligible to receive additional loan funds, depending on the circumstances. For example, a dependent undergraduate who inadvertently exceeded the \$23,000 aggregate limit for subsidized loans could not receive any additional Direct Subsidized Loan funds as a dependent undergraduate unless the outstanding debt was paid down below the \$23,000 limit (see Chapter 4 of this volume for information on aggregate loan limits). However, the student could potentially receive additional Direct Unsubsidized Loan funds, up to the \$31,000 aggregate loan limit, or non-loan aid. An independent undergraduate who inadvertently exceeded the \$23,000 subsidized limit (but who has not reached the \$57,500 combined aggregate loan limit for independent undergraduates) could borrow additional Direct Unsubsidized Loan funds once they make satisfactory arrangements to repay the subsidized amount that exceeds \$23,000. For more on overborrowing and overawards, see *Volume 4*.

A student who regains *Title IV* eligibility after having inadvertently exceeded an annual loan limit for an academic year is not eligible to receive additional Direct Loan funds for that same academic year, but could receive other types of *Title IV* aid. However, if the student exceeded only the annual subsidized limit and has regained eligibility, the student would be eligible to receive Direct Unsubsidized Loans up to the applicable annual maximum.

Note: A student who inadvertently exceeded an undergraduate annual or aggregate loan limit does not automatically become eligible to receive additional Direct Loans if they become eligible for an increased annual loan limit as a result of progressing to a higher grade level, or if they become eligible for a higher aggregate loan limit due to their dependency status changing from dependent to independent or by their enrollment in a graduate or professional degree program. In either case, the inadvertent overborrowing must still be resolved

before the student can receive additional *Title IV* aid.

Repayment of the Excess Loan Amount

If a student who has inadvertently overborrowed wishes to regain *Title IV* eligibility by repaying the excess loan amount, the student must contact the applicable servicer and comply with the servicer's repayment instructions. The school may assist the student in identifying and contacting the servicer, but the student, not the school, must make the payment of the excess loan funds in accordance with the servicer's instructions. Once the student has repaid the excess loan amount in full, the servicer will send the student confirmation that the excess loan amount has been repaid. The student or servicer must provide a copy of the repayment confirmation to the school. The inadvertent overborrowing is considered to have been resolved as of the date the servicer received the borrower's full payment of the excess loan amount.

Satisfactory Repayment Arrangements ("Reaffirmation")

A student who has inadvertently overborrowed may also regain *Title IV* eligibility by making satisfactory repayment arrangements to repay the excess loan amount. This requirement can be met if the student agrees in writing to repay the excess amount according to the terms and conditions of the promissory note that supported the loan. This is called "reaffirmation." The reaffirmation process includes the following five steps:

1. Either the student or the school where the student is requesting additional *Title IV* funds contacts the servicer of the loan that caused the overborrowing and explains that the student has inadvertently overborrowed and wishes to reaffirm the debt.
2. The servicer sends the student a reaffirmation agreement.
3. The student reads, signs, and returns the reaffirmation agreement to the servicer.
4. The servicer sends the student confirmation that the reaffirmation agreement has been accepted. The student or servicer must provide a copy of the confirmation to the school where the student is requesting *Title IV* funds.
5. The inadvertent overborrowing is considered to have been resolved as of the date the servicer receives the student's signed reaffirmation agreement.

Consolidation of Loan Amounts That Exceed the Annual or Aggregate Loan Limit

If a borrower who inadvertently received more than the annual or aggregate loan limits has consolidated the loan(s) that caused the borrower to exceed the loan limit into a Direct Consolidation Loan, the Direct Consolidation Loan is considered a satisfactory arrangement to repay the excess amount. This restores the borrower's eligibility for Title IV aid. If the school where the student is seeking aid confirms through NSLDS that the loan(s) have been consolidated, no further action is required. Note, however, that consolidation of an amount that exceeded the combined aggregate loan limit for Direct Subsidized Loans and Direct Unsubsidized Loans does not automatically make a student eligible for additional Direct Loan funds.

Regaining *Title IV* Eligibility After Inadvertent Overborrowing

[34 CFR 668.35\(d\)](#)

[DCL GEN-15-20](#)

[DCL GEN-13-02](#)

Refusing To Originate a Loan or Originating for Less Than a Borrower's Maximum Eligibility

On a case-by-case basis, you may refuse to originate a Direct Loan for an individual borrower, or you may originate a loan for an amount less than the borrower's maximum eligibility. If you choose to exercise this discretion, you must ensure that your decisions are made on a case-by-case basis and do not constitute a pattern or practice that denies access to Direct Loans for borrowers because of race, sex, color, income, religion, national origin, age, or disability status. When you make a decision not to originate a loan or to reduce the amount of the loan, you must retain documentation supporting the determination in the student's file and provide the reason for the determination to the student in writing. Also note that your school may not have a policy of limiting Direct Loan borrowing on an across-the-board or categorical basis. For example, you may not have a policy of limiting borrowing to the amount needed to cover the school charges, or not allowing otherwise eligible students to receive up to the full combined annual loan limit for Direct Subsidized Loans and Direct Unsubsidized Loans.

Refusing to Originate a Loan

[HEA Sec. 479\(A\)\(e\)](#)

[34 CFR 685.301\(a\)\(8\)](#)

[DCL GEN-11-07](#)

Prohibition on Establishing Additional Eligibility Requirements for Direct Loans

You may not condition the disbursement of a Direct Loan on anything other than the eligibility criteria under the federal regulations that govern the Direct Loan Program. For example, you may not:

- Require students to participate in counseling beyond the required entrance counseling for first-time student borrowers (see Chapter 2 of this volume for more information) as a condition for receiving a Direct Loan;
- Require a student to complete a separate Direct Loan application as a condition for receiving a Direct Loan; or
- Perform credit checks on students in connection with awarding Direct Loans or other *Title IV* aid.

Prohibition on Requiring an Additional Application

[March 18, 2014 Electronic Announcement](#)

Direct Loan Counseling

Counseling Overview

First-time student borrowers must complete entrance counseling before they can receive the first disbursement of a Direct Loan, and all student Direct Loan borrowers must complete exit counseling shortly before they cease to be enrolled on at least a half-time basis. There is a special counseling requirement for student and parent Direct PLUS Loan borrowers who meet the requirements to receive a Direct PLUS Loan after having been determined to have an adverse credit history. This chapter discusses the counseling requirements for Direct Loan borrowers and associated school responsibilities.

Entrance Counseling

Entrance counseling is required for all first-time student Direct Subsidized Loan, Direct Unsubsidized Loan, and student Direct PLUS Loan borrowers. Entrance counseling is not required for parent Direct PLUS Loan borrowers.

For this purpose, a first-time Direct Subsidized Loan or Direct Unsubsidized Loan borrower is someone who has not received a prior Direct Subsidized Loan, Direct Unsubsidized Loan, Subsidized Federal Stafford Loan, Unsubsidized Federal Stafford Loan, or Federal Supplemental Loans for Students (SLS) Loan. In the case of a graduate or professional student who requests a Direct PLUS Loan, a first-time Direct PLUS Loan borrower is someone who has not received a prior student Direct PLUS Loan or student Federal PLUS Loan. Subsidized and Unsubsidized Federal Stafford Loans, Federal SLS Loans, and Federal PLUS Loans are loan types that were made under the Federal Family Education Loan (FFEL) Program before the authority to make new FFEL Program loans ended effective July 1, 2010.

Before making the first disbursement of a Direct Subsidized Loan, Direct Unsubsidized Loan, or student Direct PLUS Loan to a first-time borrower, you must ensure that the student receives entrance counseling.

Entrance counseling provides borrowers with comprehensive information on the terms and conditions of the loan they are about to receive, and their responsibility to repay the loan. This information may be provided during an in-person counseling session, on a separate written form that the borrower signs and returns to the school, or online or by interactive electronic means, with the borrower acknowledging receipt of the information.

If entrance counseling is conducted online or through interactive electronic means, your school must take reasonable steps to ensure that students finish the counseling, which may include completing a test of their understanding of the terms and conditions of the loan. If a standardized, interactive electronic tool is used for counseling, you must give the borrower any required information that is not addressed in the tool either in person or in a separate written or electronic document.

Your school must have someone with expertise in the *Title IV* programs reasonably available shortly after the counseling to answer students' questions. As an alternative, if students are enrolled in an approved correspondence, distance education, or study-abroad program, they may be provided with written counseling materials before the loan is disbursed.

You may not require students to complete additional counseling beyond entrance counseling. However, your entrance counseling policy can require more than the minimum specified by the regulations as long as the additional requirements are reasonable as to time, effort, and relevance to the students' borrowing and are not administered in a way that unreasonably impedes students' ability to receive Direct Loans in a timely manner. For example, your entrance counseling can include one or more of the following:

- Extra information as part of in-person individual or group training or through your website, other electronic means, written materials, or different methods;
- A requirement for first-time student borrowers to take a test or evaluation of what they learned in counseling (though you cannot establish a passing score that they must achieve to get a Direct Loan);
- A requirement for students to complete a worksheet, budget, or other exercise designed to improve financial literacy and understanding of the implications of borrowing (but you cannot require them to justify the need for a loan); or
- A requirement for students to participate in a workshop, loan orientation presentation, or similar activity.

You cannot require, but you can encourage borrowers to participate in counseling beyond entrance counseling to be better informed about borrowing, the terms of their Direct Loans, their repayment responsibilities and options, and the consequences of default. Your school can also offer financial literacy classes, on a credit or non-credit basis, that include information on budgeting, debt management, anticipated earnings by profession, elements of loan counseling, etc., though eligibility for a Direct Loan cannot be contingent on completion of such a class.

Direct Loan Entrance Counseling

[34 CFR 685.304\(a\)](#)

Loan Counseling Requirements and Flexibilities

[DCL GEN-15-06](#)

Required Entrance Counseling Content for Direct Subsidized Loan and Direct Unsubsidized Loan Borrowers

Below we provide a summary of the information that must be covered in entrance counseling for Direct Subsidized Loan and Direct Unsubsidized Loan borrowers. For more detailed information, refer to the regulations cited at the end of this section.

Entrance counseling for Direct Subsidized and Unsubsidized loan borrowers must:

- Explain the use of a Master Promissory Note (MPN);
- Emphasize the importance of the loan repayment obligation;
- Describe the likely consequences of default, including adverse credit reports, delinquent debt collection procedures under Federal law, and litigation;
- Emphasize that the borrower must repay the full amount of the loan even if the borrower does not complete the program, does not complete the program within the regular time for program completion, is unable to obtain employment upon completion, or is otherwise dissatisfied with or does not receive the educational or other services that the student paid for with the loan;
- Inform the student borrower of sample monthly repayment amounts based on a range of student levels of indebtedness depending on the types of loans the borrower has received, or based on the average indebtedness of other borrowers in the same program at the same school;
- Explain how accepting the loan will affect the borrower’s eligibility for other forms of student financial assistance;
- Provide information on how interest accrues and is capitalized during periods when the interest is not paid by either the borrower or the Department;
- Inform the borrower of the option to pay the interest on a Direct Unsubsidized Loan while the borrower is in school;
- Explain the definition of half-time enrollment at the school and the consequences of not maintaining half-time enrollment;
- Explain the importance of contacting the appropriate offices at the school if the borrower withdraws before

completing their program of study so that the school can provide exit counseling;

- Provide information on how the borrower can access their records in the National Student Loan Data System (NSLDS); and
- Provide the name of the individual the borrower may contact if the borrower has questions about the borrower's rights and responsibilities or the terms and conditions of the loan.

Required Content for Direct Subsidized Loan and Direct Unsubsidized Loan Entrance Counseling

[34 CFR 685.304\(a\)\(6\)](#)

[HEA Sec. 485\(l\)\(2\)\(I\)](#)

Required Entrance Counseling Content for Graduate and Professional Student Direct PLUS Loan Borrowers

The information that must be covered in entrance counseling for graduate and professional student Direct PLUS Loan borrowers is summarized below. For more detailed information, refer to the regulations cited at the end of this section.

Entrance counseling for graduate or professional student Direct PLUS Loan borrowers must:

- Inform the student borrower of sample monthly repayment amounts based on a range of student levels of indebtedness depending on the types of loans the borrower has received, or based on the average indebtedness of other borrowers in the same program at the same school;
- Inform the borrower of the option to pay interest on a Direct PLUS Loan while the borrower is in school;
- For a graduate or professional student PLUS Loan borrower **who has received** a prior Direct Subsidized Loan, Direct Unsubsidized Loan, Subsidized Federal Stafford Loan, or Unsubsidized Federal Stafford Loan, provide the borrower with a comparison of:
 - The maximum interest rate for a Direct Subsidized Loan and a Direct Unsubsidized Loan and the maximum interest rate for a Direct PLUS Loan;
 - Periods when interest accrues on a Direct Subsidized Loan and a Direct Unsubsidized Loan and periods when interest accrues on a Direct PLUS Loan; and
 - The point when a Direct Subsidized Loan and a Direct Unsubsidized Loan enters repayment, and the point when a Direct PLUS Loan enters repayment; and
- For a graduate or professional student PLUS Loan borrower **who has not received** a prior Direct Subsidized Loan, Direct Unsubsidized Loan, Subsidized Federal Stafford Loan, or Unsubsidized Federal Stafford Loan, provide the information specified above under "Required Entrance Counseling Content for Direct Subsidized Loan and Direct Unsubsidized Loan Borrowers."

Required Content for Student Direct PLUS Loan Entrance Counseling

[34 CFR 685.304\(a\)\(7\)](#)

Exit Counseling

A Direct Subsidized Loan, Direct Unsubsidized Loan, or student Direct PLUS Loan borrower who is graduating, leaving school, or dropping below half-time enrollment is required to complete exit counseling. If the student withdraws without notifying your school, you must confirm that they have completed online counseling or mail exit counseling material to the student at their last known address. You may also email the information to the student's home (not school) email address if you have it. The PDF version of the [Direct Loan Exit Counseling Guide](#) satisfies this requirement. You may also send the student a **direct link** to the exit counseling materials online. Whatever method you choose must be used within 30 days of learning that the borrower has withdrawn or failed to participate in an exit counseling session.

When mailing exit materials to a student who has left school, you're not required to use certified mail with a return receipt requested, but you must document in their file that the materials were sent. If they don't provide updated contact information, you don't need to take further action.

The required content of exit counseling is summarized in the section that follows. For more detailed information, refer to the regulations cited at the end of the section.

Required Exit Counseling Content

Exit counseling must:

- Inform the student borrower of the average anticipated monthly repayment amount based on the student borrower's indebtedness or on the average indebtedness of student borrowers who have received Direct Loans for attendance at the same school or in the same program of study at the same school;
- Review all available Direct Loan repayment plan options, including a description of the different features of each plan and sample information showing the average anticipated monthly payments, and the difference in interest paid and total payments under each plan;
- Explain the options to prepay each loan, to pay each loan on a shorter schedule, and to change repayment plans;
- Provide information on the effects of loan consolidation;
- Include debt management strategies that are designed to facilitate repayment;
- Explain to the borrower how to contact their loan servicer;
- Explain the use of an MPN;
- Emphasize the importance of the loan repayment obligation;
- Emphasize that the borrower must repay the full amount of the loan even if the borrower does not complete the program, does not complete the program within the regular time for program completion, is unable to obtain employment upon completion, or is otherwise dissatisfied with or does not receive the educational or other services that the student paid for with the loan;
- Describe the likely consequences of default;
- Provide a general description of the terms and conditions under which a borrower may obtain full or partial forgiveness or discharge of a loan, defer repayment of a loan, or be granted forbearance on a loan;
- Provide a copy, either in print or by electronic means, of the information the Department makes available in accordance with section 485(d) of the HEA (see below);
- Review information on the availability of the Department's Student Loan Ombudsman's office;
- Inform the borrower of the availability of *Title IV* loan information in NSLDS and how NSLDS can be used to obtain *Title IV* loan status information;
- Inform the borrower that (1) they may be contacted during the repayment period by third-party student debt relief companies; (2) the borrower should use caution when dealing with those companies; and (3) the services typically

provided by those companies are already offered free of charge through the Department or the borrower's loan servicer;

- Provide a general description of the types of tax benefits that may be available to borrowers (i.e. student loan interest deduction); and
- Require the borrower to provide current information concerning their name, address, Social Security number, references, and driver's license number and state of issuance, as well as the borrower's expected permanent address, the address of their next of kin, and the name and address of the borrower's expected employer, if known (see also "Providing Borrower Information at Separation" below).

Required Content for Exit Counseling

[34 CFR 685.304\(b\)\(4\)](#)

As stated above, Direct Loan exit counseling must provide borrowers with the information the Department makes available in accordance with section 485(d) of the HEA. This section of the law requires the Department to make available to postsecondary schools and other entities a wide variety of information about federal student assistance programs, including information to help students assess the debt burden and repayment obligations that will be incurred as a result of receiving *Title IV* loans. As noted below under "Counseling Methods," documentation that a borrower has completed the Department's online exit counseling fully satisfies all Direct Loan exit counseling requirements. Schools that choose to conduct their own exit counseling can meet the requirement to provide borrowers with the information made available by the Department in accordance with section 485(d) of the HEA by providing borrowers with a copy of the Department's [Direct Loan Exit Counseling Guide](#).

Providing Borrower Information at Separation

Schools that conduct their own exit counseling must provide the current personal information collected from the student (name, address, references, etc.) to students' loan servicers within 60 days. Students authorize their school to release information to servicers in the loan promissory note they signed. No further permission is needed.

Students who complete online exit counseling on the Department's [StudentAid.gov](#) website fulfill this requirement as part of the counseling session; NSLDS provides the information to the loan holders.

Counseling Methods

The Department offers Direct Loan Program [online entrance and exit counseling](#) for students on the StudentAid.gov website. Your school will receive notification through the Student Aid Internet Gateway (SAIG) (see "Required Electronic Processes" in *Volume 2*, Chapter 3 for more information) of online loan counseling completed by borrowers, and completion information can also be viewed on the [COD System website](#). If your school documents that borrowers have completed the Department's online counseling, it has satisfied its counseling responsibility. Documentation that a borrower has completed the Department's online entrance or exit counseling fully satisfies all Direct Loan entrance or exit counseling requirements.

Your school may also choose to provide entrance or exit counseling through an in-person session or (for entrance counseling) by providing a separate written form to the student that the student signs and returns to the school. If your school conducts in-person counseling sessions, charts, handouts, audiovisual materials, and question-and-answer sessions can help convey the information in a more dynamic manner. We also recommend the use of written tests or interactive programs to ensure that students understand the terms and conditions of their loans. Counseling materials, such as the entrance and exit counseling guides, are available in the [Financial Aid Toolkit](#).

A school may adopt an alternative approach for entrance counseling as a part of its quality assurance plan. For more information, see the regulation cited below.

Regardless of the counseling methods your school uses, it must document that the student received entrance and exit counseling, and it must ensure that an individual with expertise in the *Title IV* programs is reasonably available shortly after the counseling to answer the student’s questions.

Alternative Approach for Entrance Counseling

[34 CFR 685.304\(a\)\(8\)](#)

Counseling for Correspondence and Study Abroad Students

If a first-time student borrower has enrolled in a study-abroad program (approved by a U.S. school for credit) or a correspondence or distance learning program, the school must document that the student has completed online entrance counseling that meets the regulatory Direct Loan entrance counseling requirements or provide written entrance counseling information by mail or email before making the first disbursement of a Direct Loan to the student.

In the case of exit counseling for correspondence programs or study abroad programs, the school may mail or email the borrower written counseling materials within 30 days after the borrower completes the program, with a request that they provide the contact and personal information that would ordinarily have been collected through the counseling process.

Providing Additional Information

Your school can take additional steps to counsel students, such as assisting them with developing a budget, estimating need for loans, and planning for repayment. You can also reinforce messages to borrowers. For example, with each disbursement you can remind students about the importance of maintaining satisfactory academic progress (SAP; see *Volume 1*, Chapter 1 for details on SAP requirements), planning for future employment, and staying in touch with the loan servicer. Sample measures for loan counseling are given in the “Sample Default Prevention Plan” that can be found in the regulations cited below.

Sample Default Prevention Plan

<https://www.ecfr.gov/current/title-34/subtitle-B/chapter-VI/part-668/subpart-N/appendix-Appendix> A to Subpart N of Part 668">34 CFR 668 Subpart N, Appendix A

PLUS Loan Credit Counseling

Special loan counseling is required for any student or parent Direct PLUS Loan applicant who has been determined to have an adverse credit history, but who qualifies for a Direct PLUS Loan either by getting a loan endorser or by documenting to the satisfaction of the Department that there are extenuating circumstances related to the adverse credit. While the special PLUS Loan Credit Counseling is mandatory only for these borrowers, any PLUS borrower can voluntarily complete this counseling. See Chapter 1 of this volume for more information about adverse credit.

Note that the special counseling described above is separate from the entrance counseling that all first-time graduate and professional student Direct PLUS Loan borrowers must complete, as described earlier in this chapter.

Annual Student Loan Acknowledgement

The Department offers a tool on the StudentAid.gov website called the Annual Student Loan Acknowledgement. The

[Annual Student Loan Acknowledgement](#) allows student and parent borrowers to view how much they currently owe in federal student loans and acknowledge that they have seen this amount. Although it is not required, the Department continues to encourage borrowers to complete an Annual Student Loan Acknowledgement each year they accept a new Direct Loan to help them understand their loans and how those loans will affect their financial future.

Schools will receive information through the COD System about a borrower's optional completion of the Annual Student Loan Acknowledgment process. However, the COD System will not reject disbursement records submitted for a borrower who has not completed the Annual Student Loan Acknowledgment.

Chapter 3

Direct Loan Origination, Loan Periods, and Disbursements

Origination Overview

Origination is the process of creating a Direct Loan award in the school's system. Before originating a Direct Loan, a school must determine the student's or parent's eligibility for the loan. For each Direct Loan that a school disburses to a student or parent, the school must submit a loan award record to the COD System that includes the student's grade level, the loan period and academic year dates, the loan amount, the anticipated and actual dates and amounts of the loan disbursements, and other information. Submission of a loan award record serves as the school's certification that it has determined the borrower's eligibility for the loan.

The specific Direct Loan amount that a student or parent borrower is eligible to receive is determined based on various factors such as the student's COA, Student Aid Index (SAI), OFA, and remaining eligibility under the annual and aggregate loan limits (see Chapter 4 for guidance on annual and aggregate loan limits). Some of these factors are relevant only when determining eligibility for certain types of Direct Loans. When originating a Direct Loan, the COA used in determining the loan amount may include only those costs associated with the period of enrollment (loan period) for which the loan is being originated.

Direct Subsidized Loans and Direct Unsubsidized Loans have annual and aggregate limits that are the same for all students at a given grade level and dependency status. You may not originate a Direct Loan for an amount that:

- Exceeds the amount requested by the borrower;
- In the case of a Direct Subsidized Loan, exceeds the student's COA minus the student's SAI and OFA;
- In the case of a Direct Unsubsidized Loan or Direct PLUS Loan, exceeds the student's COA minus OFA; or
- In the case of a Direct Subsidized Loan or Direct Unsubsidized Loan, would cause the student to exceed the annual or aggregate limit.

See *Volume 3*, Chapter 3 for more information on packaging Direct Loans as part of a student's financial aid award.

Originating a Loan

It's important to remember that your school, not the Department, is responsible for determining a borrower's eligibility for a Direct Loan. Schools that originate and disburse loans to ineligible borrowers, or for loan amounts that exceed loan limits or financial need, are subject to administrative actions such as a fine, limitation, suspension, and termination, as well as liabilities including repayment to the government of interest and costs it has paid on the ineligible loans.

You must originate a Direct Loan while the student is enrolled and eligible for the period of enrollment for which the loan is intended. You may not originate a loan for a period in which the student is no longer enrolled. For example, you may not originate a loan for a prior academic year that has ended, even if the student is enrolled and eligible for the current academic year. Similarly, if a student who was enrolled at least half time only for the fall and spring quarters of an academic year consisting of fall, winter, and spring quarters does not request a loan until the spring, you may not at that time originate a loan for the previous fall quarter.

For all Direct Loans, you must document the student's COA, SAI, and OFA in the student's file. This information must be made available to the Department upon request.

You must confirm that the borrower meets the definition of eligible borrower by doing the following:

- Determine that the student is enrolled at least half time and making satisfactory academic progress (see *Volume 1*);
- Review the NSLDS information on the ISIR or the [NSLDS Professional Access website](#) to ensure that the student is not in default, does not owe an overpayment on a *Title IV* grant or loan (see *Volume 1*), and will not exceed the annual or aggregate loan limits (as described in Chapter 4 of this volume);
- Ensure that the amount of the loan, in combination with other aid, will not exceed the student's financial need or

COA (see *Volume 3*, Chapter 3);

- For parents receiving a Direct PLUS Loan, ensure that the student has completed a FAFSA form (review the student's ISIR or *FAFSA Submission Summary*); and
- Ensure that the loan disbursement dates meet cash management and disbursement requirements.

For a Direct Subsidized/Unsubsidized Loan, you must also:

- Determine the student's Pell Grant eligibility and, if they are eligible, include the grant in the student's aid package;
- For a Direct Unsubsidized Loan made to an undergraduate student, first determine the student's eligibility for a Direct Subsidized Loan and, if the student is eligible, include the Direct Subsidized Loan in the student's aid package;
- Ensure that the amount of the loan will not exceed the student's annual or aggregate loan limits; and
- Prorate the annual loan limit for an undergraduate enrolled in a program or remaining period of study that is shorter than an academic year (as described in Chapter 5 of this volume).

No Alternate SAI When Originating Loans for Periods Other Than Nine Months

If you originate a Direct Loan for a period shorter than a full academic year (for example, a loan for a single term or for a program shorter than an academic year), the loan amount must be based on the reduced costs for that shorter period of enrollment rather than the costs for the full academic year. However, as explained in *Volume 3*, Chapter 3, there are no alternate SAIs for periods of enrollment other than nine months comparable to the alternate EFCs for periods other than nine months that were used prior to the 2024-2025 award year. In all cases you must use the student's full calculated 9-month SAI in the formula to determine financial need for Direct Subsidized Loans and other need-based aid even though the COA will reflect the reduced costs for the shorter loan period. This means that students enrolled for periods shorter than nine months will have less financial need than would have been the case in the past when using a smaller alternate EFC, because now the full calculated SAI must be subtracted from the reduced COA for the shorter period of enrollment when determining financial need for purposes of Direct Subsidized Loan eligibility.

Volume 8, Chapter 3, Example 1: Effect of No Alternate SAI on Financial Need When Originating Loans for Periods Less Than Nine Months

A first-year dependent student has a COA of \$10,800 for an academic year consisting of the fall and spring semesters and an SAI of 8,000, so the student's financial need for the fall-spring enrollment period is \$2,800 (see *Volume 3*, Chapter 3 for guidance on determining financial need). The student is not eligible for a Pell Grant and receives no *Title IV* aid except for Direct Loans. The student qualifies for a \$2,800 Direct Subsidized Loan to fully cover their financial need. (The student could also receive a Direct Unsubsidized Loan, but for purposes of this example we cover only Direct Subsidized Loan eligibility.)

The student will also be enrolled for the summer term, which the school treats as a "trailer" to the preceding fall-spring Scheduled Academic Year (SAY) for purposes of monitoring annual loan limits (see Chapter 6 of this Volume). The summer term is four months in length and the COA for that term is \$4,000. For students who attend the summer term and request Direct Loan funds, the school's normal practice is to originate a separate loan for the summer term only. Because there is no alternate SAI for periods of enrollment less than nine months and the student's SAI of 8,000 is greater than the summer term COA, the student has no financial need for summer and is therefore ineligible to receive a Direct Subsidized Loan for that term (but could receive a Direct Unsubsidized Loan).

As an alternative to originating a separate summer-only loan, the school could choose to originate a single loan for a loan period covering the fall-spring SAY plus the summer trailer term. The student's COA for that period of enrollment is \$14,800. Subtracting the student's SAI of 8,000 from the COA results in financial need of \$6,800. The student would therefore be eligible to receive a \$3,500 Direct Subsidized Loan (the maximum subsidized annual loan limit for a dependent first-year student) for the fall-spring-summer loan period.

No Minimum Direct Loan Amount in COD System

The COD System does not set a minimum amount for which a school may originate a Direct Loan.

Sequestration

The Budget Control Act (BCA) put into place an automatic federal budget cut known as the sequester. For loans made under the Direct Loan program, the sequester requires an increase in the amount of the loan fee (also known as the origination fee) that is charged to borrowers. For details on the sequester-required changes to Direct Loan origination fees, see the [April 30, 2024 Electronic Announcement](#).

Resources for Schools

FSA Assessments

For a guide to reviewing and evaluating your procedures regarding Direct Loans, see the Direct Loans module of [FSA Assessments](#).

EDEExpress for Windows

The EDEExpress for Windows software is a PC application that processes, packages, and manages *Title IV* student financial aid records, including Direct Loan origination and disbursement records. Federal Student Aid provides EDEExpress at no charge to institutions. It is available for download in the Knowledge Center on the [Software and Other Tools](#) page.

FSA Partner and School Relations Center

1-800-848-0978

[2025–2026 Common Origination and Disbursement \(COD\) Technical Reference\(February 2025 Update\)](#)

Reporting Loan Information Changes

It's important for schools to accurately report academic year dates and loan period dates for all types of Direct Loans to the COD System. You must also update a loan's previously reported loan period dates or academic year dates if the borrower's actual attendance is different from the anticipated dates that were the basis for an initial reporting to the COD System. Other circumstances when you must update loan data in the COD System include:

- When the borrower requests the cancellation of a loan or a loan disbursement;
- When the borrower does not begin attendance, or does not begin attendance on at least a half-time basis, in a payment period that was included in the originally reported loan period and you did not make any disbursements for that payment period (see *Volume 3*, Chapter 1 for information on payment periods);
- When you determine that the borrower is not eligible to receive a Direct Loan for a payment period that was part of the originally reported loan period (for example, due to the borrower's failure to meet SAP standards, because the borrower has an overpayment, or because a change in circumstances makes the borrower ineligible for a subsidized loan);
- When the borrower withdraws during a payment period that was included in the originally reported loan period, and as a result, the entire amount of the loan that was intended for that payment period is returned under the Return of *Title IV* Funds (R2T4) calculation;
- For clock-hour programs, non-term credit-hour programs, and certain types of nonstandard term credit-hour programs, when the borrower fails to progress to the next payment period or academic year as scheduled.

Note: In limited circumstances, it is not necessary to adjust the loan period for a Direct Loan if the borrower is ineligible to receive a Direct Loan during one or more terms within the loan period due to not being enrolled or being enrolled on a less-than-half-time basis. For details, see "Loan Periods" later in this chapter.

Correcting Direct Subsidized Loan or Direct Unsubsidized Loan Awarding Errors

If you discover that, due to an error, a student borrower has received Direct Subsidized Loan funds in excess of their financial need, and the student is still enrolled for the loan period, you must return the subsidized loan amount for which the student was ineligible and ask the student if they wish to replace the subsidized funds with a Direct Unsubsidized Loan. If the student agrees to accept the unsubsidized loan funds and they also received a Direct Unsubsidized Loan for the same loan period as the Direct Subsidized Loan, you may increase the amount of the Direct Unsubsidized Loan disbursements by the amount of the Direct Subsidized Loan that the student was ineligible to receive. If the student did not receive a Direct Unsubsidized Loan, you may originate a new Direct Unsubsidized Loan for the amount of the Direct Subsidized Loan that the student was ineligible to receive. The new Direct Unsubsidized Loan must have the same loan period and disbursement dates as the Direct Subsidized Loan.

If the student does not agree to have the excess subsidized loan funds replaced by a Direct Unsubsidized Loan, you must still return the ineligible Direct Subsidized Loan amount.

If you discover that a student received Direct Subsidized Loan funds in excess of financial need after the student is no longer enrolled for the loan period, you are not required to take any action to eliminate the excess subsidized loan amount.

If you discover that, due to an error, a student borrower who was eligible for a Direct Subsidized Loan instead received a Direct Unsubsidized Loan, you must correct the error (even if the loan period has ended) by submitting a downward adjustment to reduce or eliminate the Direct Unsubsidized Loan, as appropriate, and replacing it with the same amount of Direct Subsidized Loan funds. You may do this either by adjusting an existing Direct Subsidized Loan upwards, or, if the student does not have an existing Direct Subsidized Loan, by originating a new Direct Subsidized Loan. Replacing a Direct Unsubsidized Loan with a Direct Subsidized Loan in this circumstance does not require obtaining the student's consent.

Direct Loan Overawards

As explained in *Volume 4*, Chapter 3, an overaward exists when a student's aid package exceeds their need or overall COA. If you discover that a student who received Direct Loans has been overawarded and your school has already received and disbursed some or all of the Direct Loan funds, you have the following options:

- If the student's aid package includes a Direct Unsubsidized Loan, a Direct PLUS Loan, or a nonfederal education loan, and the aid package doesn't already apply these loans toward the student's SAI, you may choose to adjust the aid package to have all or a portion of these loans replace the SAI, thus reducing or eliminating the overaward (for more detail and examples, see "Substituting for the SAI" in *Volume 3*, Chapter 3).
- If you have not yet made the second or subsequent disbursement of a Direct Loan, you can reduce or cancel the second or subsequent disbursement.

If the overaward situation occurs after the full amount of a Direct Loan has been disbursed, you do not need to adjust the amount of the loan. However, you might have to adjust the aid package to prevent an overaward of Campus-Based funds or to prevent the total aid package from exceeding the student's need.

Although a school isn't required to return Direct Loan funds that were disbursed to the borrower (either directly or by applying them to the student's account) before the overaward situation occurred, the law doesn't prevent your school from returning funds that were applied to the student account if you choose to do so. A borrower who receives a direct payment of loan funds is not required to repay an overawarded amount, unless the overaward was caused by the borrower's misreporting or withholding of information.

Loan Periods

The loan period (also referred to as the "period of enrollment") is the period for which a Direct Loan is intended. It must coincide with an academic period established by the school for which institutional charges are generally assessed (e.g., semester, trimester, quarter, length of the student's program, or academic year). It's important to define the loan period at the beginning of the loan awarding process, because the timing and amount of Direct Loan disbursements are tied to the loan period.

Generally, the loan period may not include terms in which a student is ineligible (for example, if the student is not enrolled during a particular term or is enrolled less than half time during a term). There is a limited exception to this rule if the loan period begins and ends with a term in which the student is eligible for Direct Loans, but the first and last terms of the loan

period are separated by one or more terms in which the student is ineligible. For example, if a student is expected to be enrolled on at least a half-time basis in the fall and spring quarters of an academic year consisting of the fall, winter, and spring quarters, but the student indicates that they do not plan to attend the winter quarter (or that they plan to be enrolled on a less than half-time basis during that quarter), the school may still originate a loan for a loan period covering the fall, winter, and spring quarters. Of course, no costs associated with winter quarter may be included in the student’s COA when determining the loan amount the student is eligible to receive for the fall and spring quarters. Similarly, if a school initially originates a loan for a fall-winter-spring loan period based on a student’s anticipated enrollment status of at least half time during all three quarters, but the student subsequently does not attend the winter quarter or temporarily drops below half-time status for that term, and then resumes at least half-time enrollment in the spring, the school is not required to make any changes to the original fall-winter-spring loan period. However, it may be necessary for the school to adjust the originally approved loan amount if that amount is no longer supported by the reduced costs for the fall and spring quarters only.

In the first scenario described above the school could also choose to originate two separate loans for fall-only and spring-only loan periods. In the second scenario the school would also have the option of adjusting the original fall-winter-spring loan period to fall-only, and then originating a new spring-only loan. Note, however, that in both cases the school would then be required to separately subtract the student’s full SAI from the fall-only and spring-only costs when determining the student’s Direct Subsidized Loan eligibility for those terms (see “No Alternate SAI When Originating Loans for Periods Other Than Nine Months” earlier in this chapter). In some cases this could significantly reduce or even eliminate a student’s need for Direct Subsidized Loans. In contrast, using a fall-winter-spring loan period (excluding all costs associated with the winter quarter) would allow the school to subtract the full SAI from the higher combined costs for the fall and spring terms, partially mitigating the effect of not having alternate SAIs for periods of enrollment other than nine months.

The limited exception described above applies only if a student is eligible to receive a Direct Loan during the first and last terms within the loan period. The term in which the student is ineligible cannot be the first or last term in the loan period. For instance, a school may not originate a loan for a fall-winter-spring loan period if the student does not attend the fall term or the spring term.

Note: See the guidance at the end of this chapter for certain exceptions to the normal loan period rules that apply when periods of clinical work are included in a standard term.

Period of Enrollment (Loan Period) Definition

[34 CFR 685.102\(b\)](#)

Minimum Loan Periods

The **minimum** period for which a school may originate a Direct Loan varies depending on the school’s academic calendar. As explained below and in Chapter 7, different rules apply for purposes of determining the minimum loan period for a Direct Loan and the type of academic year that a school may use to monitor Direct Loan annual loan limits depending on whether a program is term-based (including subscription-based programs; see *Volume 3*, Chapter 1) with either standard or nonstandard terms, or is a non-term program (all clock-hour programs are treated as non-term programs), and in the case of a term-based program with nonstandard terms, depending on the type of nonstandard term, as described below.

Nonstandard terms may be one of the following types:

1.	Nonstandard terms that are substantially equal (no term in the academic year differs in length from any other term by more than two weeks), and each of the terms is at least nine weeks in length.	SE9W

2.	Nonstandard terms that are substantially equal, but one or more of the terms in the academic year contains fewer than nine weeks.	Non-SE9W
3.	Nonstandard terms that are not substantially equal in length (one or more of the terms in the academic year differs in length from another term by more than two weeks).	Non-SE9W

We refer to the first type of nonstandard term as “SE9W” nonstandard terms. We group the second and third types together and refer to them as “non-SE9W” nonstandard terms.

Programs with SE9W nonstandard terms are treated the same as standard-term programs for purposes of determining minimum loan period length and monitoring annual loan limits. However, programs with non-SE9W nonstandard terms are treated the same as non-term programs for these purposes.

Note that substantially equal nonstandard terms (the first two types of nonstandard terms described above) are treated differently for purposes of determining Direct Loan payment periods than for determining minimum loan period length and monitoring annual loan limits. As explained in *Volume 1*, Chapter 1, if a program is offered in standard terms or in nonstandard terms that are substantially equal in length (regardless of the length of the nonstandard term), the payment period is the term.

However, for purposes of determining the minimum loan period for a Direct Loan and monitoring Direct Loan annual loan limits, substantially equal nonstandard terms that contain fewer than nine weeks are treated the same as nonstandard terms that are not substantially equal. This means that if a program has substantially equal nonstandard terms that are less than nine weeks in length, you must make a Direct Loan disbursement each term (the same as would be the case if the program were offered in standard terms), but the minimum loan period and the type of academic year used to monitor Direct Loan annual loan limits must be determined in accordance with the rules that apply to non-term programs.

For detailed information on standard term, nonstandard term, and non-term programs, see *Volume 1*, Chapter 1.

Minimum Loan Period

[34 CFR 685.301\(a\)\(10\)\(i\)](#)

Minimum Loan Period: Standard Term and SE9W Nonstandard Term Programs

For **credit-hour programs with standard terms (semesters, quarters, or trimesters), or with SE9W nonstandard terms**, the minimum loan period is a single academic term. For example, if a student will be enrolled in the fall semester only and will skip the spring semester, you may originate a loan with a loan period that covers only the fall term.

Minimum Loan Period: Clock-Hour, Non-Term, and Non-SE9W Nonstandard Term Programs

For **all other programs (i.e., clock-hour, non-term, and non-SE9W nonstandard term programs)**, the minimum loan period is generally the lesser of the program length (or remainder of the program, if there is less than full academic year remaining) or the academic year. There are exceptions to this minimum loan period rule when originating loans for transfer students, or for students who complete or otherwise cease enrollment in one program and then begin a different program at the same school. We discuss these exceptions in detail in Chapter 7 of this volume.

Minimum Loan Period: Programs Offered in Modules

If a program is offered in modules, this does not change the minimum loan period rules for Direct Loans. For example, if a standard or SE9W nonstandard term is divided into two or more modules, the minimum loan period for a Direct Loan is still the term, even if the student does not attend all modules within the term. Similarly, if a clock-hour, non-term credit-

hour, or non-SE9W nonstandard term program is offered in modules, the minimum loan period is still the lesser of the academic year or the program length (or remaining portion of the program).

For *Title IV* aid purposes, students are allowed to skip one or more modules. However, if a loan period includes modules that the student does not attend, the COA for the loan period may not include costs associated with those modules.

Minimum Loan Period: Standard Term Combined With an Intersession

As we explain under “Intersessions” in *Volume 3*, Chapter 1, in limited cases for academic programs offered in standard terms, a short nonstandard term (often called an “intersession”) may be combined with a preceding or following standard term and considered to be a single standard term. In such cases, the minimum loan period for a Direct Loan is different depending on whether a student attends the intersession. If a student who attends the intersession requests a loan for the combined term, the loan period includes the standard term plus the intersession. However, if the student attends only the standard term and is not enrolled in the intersession that is attached to that term, the loan period includes only the standard term.

Maximum Loan Periods

The **maximum** period for which you may originate a Direct Loan is generally an academic year. However, if your school applies the annual loan limit for Direct Subsidized Loans and Direct Unsubsidized Loans to a period of time greater than an academic year, you may originate a Direct Loan for that longer period of time. For example, a school might offer an 1100 clock-hour program and define the academic year as 900 clock hours but could choose to allow students to receive just one annual loan limit for the entire 1100-hour program. In that case, the loan period would correspond to the length of the program, a period of time that is longer than the academic year.

Maximum Loan Period

[34 CFR 685.301\(a\)\(10\)\(iv\)](#)

Direct Loan Disbursement Requirements

For general guidance on the timing of disbursements made under the *Title IV* programs, see *Volume 3*, Chapter 1. For guidance on reporting *Title IV* program disbursements through the COD System and the rules for making early disbursements, late disbursements, and retroactive payments, see *Volume 4*, Chapter 2. In this section we discuss certain other disbursement requirements that are specific to the Direct Loan Program.

Note: See the guidance at the end of this chapter for certain exceptions to the normal Direct Loan disbursement requirements that apply when periods of clinical work are included in a standard term.

Determining Direct Loan Disbursement Dates and Amounts

[34 CFR 685.303\(d\)](#)

Requirement for Substantially Equal Disbursements

Direct Loans must be disbursed in substantially equal installments, regardless of any difference in costs for different payment periods that are within the same loan period, and no Direct Loan disbursement may exceed one-half of the loan

amount.

Substantially Equal Disbursements

[34 CFR 685.303\(d\)\(5\)](#)

Direct Loan Disbursements When the Loan Period is a Single Payment Period

As explained in *Volume 3*, Chapter 1, all *Title IV* program funds (including Direct Loan funds) except for Federal Work-Study payments must be disbursed on a payment period basis. Except in certain cases for Direct Loans made to cover the costs of a study abroad program (see below), if the loan period for a Direct Loan covers more than one payment period, a school must make at least one Direct Loan disbursement in each payment period.

If the loan period for a Direct Loan is a single payment period, a school must generally make at least two disbursements of a Direct Loan (see below for two exceptions to this requirement). The following requirements apply for the timing of the second disbursement:

- For credit-hour programs offered in standard terms or offered in nonstandard terms that are substantially equal in length with no term less than nine weeks of instructional time in length, the second disbursement may not be made until the calendar midpoint between the first and last scheduled days of class in the loan period.
- For all other programs, including clock-hour and non-term credit-hour programs, and nonstandard term programs with terms that are not substantially equal or with terms that are substantially equal and less than nine weeks of instructional time in length, the second disbursement may not be made until the student successfully completes half of the weeks of instructional time in the payment period, and half of the clock or credit hours in the payment period.

Exceptions to the Multiple Disbursement Requirement When the Loan Period is a Single Payment Period

If the loan period is not more than one semester, one trimester, one quarter or, for non-term-based schools or schools with nonstandard terms, four months, a school with a cohort default rate of less than 15% for each of the three most recent fiscal years for which data are available may disburse a Direct Loan in a single installment.

In addition, if the loan period is a single payment period and more than half of the payment period has elapsed before the school has made a disbursement, the school may include in the disbursement loan proceeds for the entire payment period.

Regulatory Citations

Loan period is more than one payment period: [34 CFR 685.303\(d\)\(3\)\(i\)](#)

Loan period is one payment period: [34 CFR 685.303\(d\)\(3\)\(ii\)](#)

Exception based on cohort default rate: [34 CFR 685.303\(d\)\(6\)\(i\)\(A\)](#)

More than half of payment period has elapsed: [34 CFR 685.303\(d\)\(4\)\(ii\)](#)

Exception to the Multiple Disbursement Requirement for Study Abroad Programs

Regardless of the length of the loan period, you may disburse a Direct Loan in a single installment if the loan is to cover a student's COA in a study abroad program and your school's calculated cohort default rate is less than 5% for the most recent fiscal year for which data are available.

Study Abroad Program Exception

[34 CFR 685.303\(d\)\(6\)\(i\)\(B\)](#)

Direct Loan Disbursements for Completed Payment Periods

The Direct Loan Program regulations allow a school to include in a single disbursement the disbursements for any payment periods that have ended. However, the COD System (except for schools exempted because of low default rates) requires schools to enter at least two anticipated disbursement dates. Therefore, when creating a loan origination record for a Direct Loan when you intend to include in a disbursement loan proceeds for any payment periods that have been completed, you should enter the actual date you anticipate making the disbursement as the anticipated date for all disbursements that would be included. For example, consider a school attempting to submit an origination when the data is as follows:

Loan period: 09/01 - 05/30 (fall through spring)

Minimum number of disbursements normally required: 2

Payment period 1: 09/01 - 12/20

Payment period 2: 01/06 - 05/30

Date school creates origination record: 01/09

If you anticipate disbursing the loan proceeds for both payment periods on January 16, you should enter January 16 as the date for both the first and second disbursements when you create the origination record.

Direct Loan Disbursement After One or More Payment Periods Have Elapsed

[34 CFR 685.303\(d\)\(4\)\(i\)](#)

Direct Loan Disbursements Made After the Date of the Borrower's Death

If a school learns that a student or parent Direct Loan borrower has died before one or more disbursements of a loan have been made, the school must cancel all pending disbursements. Direct Loan funds cannot be disbursed when there is no possibility of repayment. In addition, if a school is not informed of a student or parent borrower's death until after one or more loan disbursements have been made, the school must return to the Department the full amount of all loan funds that were credited to the student's school account after the date of the borrower's death (if the post-death disbursement created a credit balance that was paid directly to the student or parent, the school is not responsible for returning the credit balance amount).

Disbursements after the date of the borrower's death are most likely to occur when a parent Direct PLUS Loan borrower dies. If an enrolled student dies, the school will generally learn of the death in a timely manner and can cancel any pending loan disbursements. However, if a parent Direct PLUS Loan borrower dies, the student or other family members

may not notify the school or the loan servicer right away, particularly if the parent borrower had requested a deferment of payments while the student was enrolled at least half time.

If a school is required to return Direct PLUS Loan funds that were disbursed after the date of the parent borrower's death, the school should determine whether there is a surviving parent who can take out a Direct PLUS Loan for the amount of the original Direct PLUS loan that must be returned. If this is not an option, the school may award additional Direct Unsubsidized Loan funds (up to the amounts normally available only to independent undergraduates) to the dependent student (see "Annual Loan Limits for Independent Undergraduates and Certain Dependent Undergraduates" in Chapter 4 of this volume). In this specific circumstance, a school may originate a Direct PLUS Loan for a surviving parent or originate a Direct Unsubsidized Loan for the dependent student even if the loan period has ended.

For additional guidance on other actions that a school must take when a *Title IV* aid recipient dies, see Appendix B of the *FSA Handbook*.

Exceptions to the Normal Loan Period and Disbursement Requirements When Clinical Work is Included in a Standard Term

Volume 3, Chapter 1 of the *FSA Handbook* describes standard terms (semesters, quarters, and trimesters) and nonstandard terms, and explains that standard terms or nonstandard terms that are substantially equal and at least nine weeks in length ("SE9W" nonstandard terms) may not include periods of clinical work, such as medical and education program work which is conducted outside the classroom, unless certain requirements are met (see "Inclusion of Clinical Work in a Standard Term"). If a standard term or SE9W nonstandard term contains clinical work that meets all the criteria to be included in the term, this may result in certain exceptions to the normal loan period and disbursement rules as discussed earlier in this chapter. We discuss these exceptions below.

- If clinical work meets the criteria described in *Volume 3* to be included in a standard term or SE9W nonstandard term, the school must associate the clinical work with the term during which the majority of the clinical work occurs. If a student receives a Direct Loan for a term that includes clinical work and the clinical work begins before the starting date of the term with which the clinical work is associated, the loan period start date is the beginning date of the clinical work (rather than the starting date of the term, as would normally be the case).

For example, if a school originates a Direct Loan for a Scheduled Academic Year (SAY) consisting of fall and spring semesters that run from September 1 through May 31, and the fall semester includes clinical work that begins on August 15, the school would report the loan period dates as August 15 through May 31. If the clinical work does not begin until on or after the starting date of the term with which it is associated, the loan period start date would be the beginning date of the term.

- If the clinical work ends after the ending date of the term with which it is associated, the loan period end date for a Direct Loan is the ending date of the clinical work (instead of the ending date of the term, as would normally be the case).

For example, if a school originates a Direct Loan for a Scheduled Academic Year (SAY) consisting of fall and spring semesters that run from September 1 through December 31 (fall) and January 1 through May 31 (spring), and the spring semester includes clinical work that ends on June 20, the school would report the loan period dates as September 1 through June 20. However, if the clinical work ends on or before the ending date of the term with which it is associated, the loan period end date would be the ending date of the term.

- If loan period dates are adjusted as explained above to account for clinical work that begins before or ends after the normal term starting and ending dates, the academic year period to which the Direct Loan annual loan limit applies, and the payment period dates must also be adjusted accordingly. Using the example above where the spring term of a fall-spring SAY contains clinical work that ends on June 20, and assuming that the annual loan limit applies to that fall-spring SAY period, the school would report the academic year dates associated with the loan as September 1 through June 20, and would report the dates of the second payment period (the spring semester) as January 1 through June 20 (see *Volume 3*, Chapter 1 for guidance on payment periods, and Chapter 6 of this volume for information on SAYs and monitoring annual loan limits).
- If there are two consecutive loan periods for standard terms or SE9W nonstandard terms that include clinical work, and the first loan period has not ended when the clinical work associated with the next loan period is scheduled to begin (because the clinical work associated with the term has not yet been completed), it is permissible for the two loan periods (and the associated payment periods) to overlap.

- If a loan period includes more than one standard or SE9W nonstandard term, the second or subsequent disbursement of a Direct Loan disbursement normally can be made up to 10 days before the first day of classes of the second or subsequent term. However, if a second or subsequent term in a loan period includes clinical work that a student has not yet started when the term begins (because the clinical work associated with that term does not start until some point after the beginning date of the term), the second or subsequent loan disbursement can be made no earlier than 10 days before the beginning of the clinical work. (**Note:** The scenario described here assumes that the term includes only clinical work. If, in addition to the clinical work that starts later, the term also includes regular coursework that starts on the beginning date of the term, the normal early disbursement rules apply and the second or subsequent disbursement can be made up to 10 days before the first day of classes of the term.)

Chapter 4

Annual and Aggregate Loan Limits

Annual Loan Limit Overview

Direct Subsidized Loans and Direct Unsubsidized Loans have annual loan limits that vary based on the student’s grade level and (for Direct Unsubsidized Loans) dependency status. The annual loan limits are the maximum amounts that a student may receive for an academic year. The actual loan amount that a student is eligible to receive may be less than the annual loan limit. (There are also aggregate loan limits for Direct Subsidized Loans and Direct Unsubsidized Loans, discussed later in this chapter.)

There are higher Direct Unsubsidized Loan annual loan limits for students enrolled in certain health professions programs, and special loan limits for certain students who are not enrolled in a program that leads to a degree or certificate awarded by the school they are attending. Also, the annual loan limits for undergraduate students must be prorated (reduced) in some cases.

Depending on the academic calendar of the program, a student who has reached the annual loan limit cannot receive another Direct Subsidized Loan or Direct Unsubsidized Loan until they either begin another academic year, or, in some cases, progress within an academic year to a grade level with a higher annual loan limit.

Direct Loan Annual Loan Limits

[34 CFR 685.203](#)

Annual Loan Limits: Basic Principles

- For undergraduate students, there is a combined annual loan limit for Direct Subsidized Loans and Direct Unsubsidized Loans, of which not more than a specified amount may be comprised of Direct Subsidized Loans.
- For graduate or professional students, the annual loan limit is only for Direct Unsubsidized Loans. Graduate or professional students are not eligible to receive Direct Subsidized Loans.
- An undergraduate student who is ineligible for Direct Subsidized Loans may receive up to the full combined subsidized and unsubsidized annual loan limit in Direct Unsubsidized Loans.
- The Direct Subsidized Loan annual loan limits are the same for both dependent and independent undergraduates.
- Dependent students have lower combined subsidized and unsubsidized annual loan limits than independent students. However, if a dependent student’s parent(s) cannot borrow a Direct PLUS Loan, the student becomes eligible for the higher combined subsidized and unsubsidized annual loan limits that are otherwise available only to independent students, allowing the dependent student to receive additional Direct Unsubsidized Loan funds (but this does not change the student’s dependency status).
- The annual loan limits apply to the academic year (that is, the annual loan limit is the maximum loan amount that a student may receive for one academic year).
- The student’s maximum annual loan limit increases as the student progresses to higher grade levels.
- For undergraduate students, the loan limit must be prorated if the student is enrolled in a program (or in the remaining portion of a program) that is less than an academic year in length.

Annual Loan Limits for Dependent Undergraduates

For dependent undergraduate students (excluding dependent undergraduates whose parents are unable to obtain Direct PLUS Loans), the combined Direct Subsidized Loan and Direct Unsubsidized Loan annual loan limits are shown in Table 1A below.

The “Total (Subsidized and Unsubsidized)” limits in Table 1A represent the total of all Direct Subsidized Loans and Direct Unsubsidized Loans a dependent undergraduate student may borrow at each level of study for a single academic year. For example, a dependent first-year undergraduate may receive up to \$5,500 in Direct Subsidized Loans and/or Direct Unsubsidized Loans for a single academic year, but no more than \$3,500 of this amount may be subsidized. A dependent first-year undergraduate who has no subsidized loan eligibility may receive up to the full \$5,500 in Direct Unsubsidized Loans.

Volume 8, Chapter 4, Table 1A: Dependent Undergraduate Annual Limits for Direct Subsidized Loans and Direct Unsubsidized Loans

Dependent Undergraduates (Excluding Dependent Students Whose Parents Can’t Get Direct PLUS Loans)	Total (Subsidized and Unsubsidized)	Maximum Subsidized
First Year	\$5,500	\$3,500
Second Year	\$6,500	\$4,500
Third Year and Beyond	\$7,500	\$5,500

Annual Loan Limits for Independent Undergraduates and Certain Dependent Undergraduates

The maximum Direct Subsidized Loan amount that an undergraduate student may receive each academic year is the same for both dependent and independent undergraduates. However, there are higher Direct Unsubsidized Loan annual loan limits for independent undergraduate students and for dependent undergraduates whose parents are unable to obtain Direct PLUS Loans. For these students, the combined Direct Subsidized Loan and Direct Unsubsidized Loan annual loan limits are shown below in Table 1B.

As with the loan limits for dependent undergraduates, the “Total (Subsidized and Unsubsidized)” limits represent the total of all Direct Subsidized Loans and Direct Unsubsidized Loans that an independent undergraduate student (or a dependent undergraduate whose parent is unable to obtain a Direct PLUS Loan) may borrow at each level of study, for a single academic year. For example, an independent, first-year undergraduate may receive up to \$9,500 in Direct Subsidized Loans and Direct Unsubsidized Loans for a single academic year, but no more than \$3,500 of this amount may be subsidized. An independent first-year undergraduate who has no subsidized loan eligibility may receive up to the full \$9,500 in Direct Unsubsidized Loan funds.

Although a dependent undergraduate whose parent is unable to obtain a Direct PLUS Loan has access to the same higher Direct Unsubsidized Loan annual loan limits as an independent undergraduate at the same grade level, the student is still considered to be a dependent student for all other *Title IV* purposes.

For more detail on the conditions under which a dependent undergraduate can receive increased Direct Unsubsidized Loan amounts, see “Criteria for Dependent Students to Receive Additional Direct Unsubsidized Loan Funds” below.

Volume 8, Chapter 4, Table 1B: Independent Undergraduate Annual Limits for Direct Subsidized Loans and Direct Unsubsidized Loans

Independent Undergraduates (and Dependent Undergraduates Whose Parents Can’t Get Direct PLUS Loans)	Total (Subsidized and Unsubsidized)	Maximum Subsidized
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First Year	\$9,500	\$3,500
Second Year	\$10,500	\$4,500
Third Year and Beyond	\$12,500	\$5,500

Increased Direct Unsubsidized Loan Eligibility for Independent Undergraduates and Certain Dependent Undergraduates

[34 CFR 685.203\(c\)](#)

Criteria for Dependent Students to Receive Additional Direct Unsubsidized Loan Funds

Dependent students whose parents are unable to borrow Direct PLUS Loans due to adverse credit or other exceptional circumstances may receive additional Direct Unsubsidized Loan funds up to the same amount that is available to independent undergraduate students. Because Direct PLUS Loans can be made for up to the full COA minus other financial assistance received, the additional Direct Unsubsidized Loan amount may not be sufficient to substitute entirely for the amount a parent could receive under the Direct PLUS Loan program. Therefore, you should determine whether the parents may be able to borrow a Direct PLUS Loan by obtaining an endorser who does not have an adverse credit history before originating additional unsubsidized loan amounts for the dependent student. Before a dependent student can receive the additional Direct Unsubsidized Loan amount, you must document the basis of the student's eligibility. Some basic guidelines for making this determination are discussed below. However, keep in mind that none of the following, by themselves, are sufficient to make a dependent student eligible for additional Direct Unsubsidized Loan funds:

- The parent's unwillingness to borrow a Direct PLUS Loan (even though the parent would otherwise be eligible to borrow);
- The school's decision not to participate in the Direct PLUS Loan program; or
- The financial aid administrator's belief that the parent should not borrow a Direct PLUS Loan.

General Guidelines for Determining That a Dependent Student May Receive Additional Unsubsidized Funds

The sections that follow provide general guidelines for making a determination that a dependent student is eligible to receive additional Direct Unsubsidized Loan funds under various circumstances.

Only One Parent Has Applied for a Direct PLUS Loan and Been Denied

If only one of a student's parents has applied for a Direct PLUS Loan and been denied based on adverse credit, you may award additional Direct Unsubsidized Loan funds on that basis, without first determining whether there is another parent who could take out a Direct PLUS Loan. However, if both parents apply independently and one is approved and the other denied, the dependent student is not eligible for the additional unsubsidized loan amounts.

A Previously Approved Parent Later Requests Additional Direct PLUS Loan Funds and Is Denied

The dependent student may become eligible at any time during an academic year if a parent has first been approved and then later denied a Direct PLUS Loan. For example, if a parent was approved for and received the full amount of a Direct PLUS Loan for a fall-spring loan period, but the parent is subsequently determined ineligible due to having an adverse credit history when they request additional Direct PLUS Loan funds later during the spring semester, you may award

additional Direct Unsubsidized Loan funds to the student. However, the Direct PLUS Loan funds that the parent previously received during the same period of enrollment must be treated as OFA when determining the additional Direct Unsubsidized Loan amount that the student is eligible to receive.

A Parent Is Unable To Borrow a Direct PLUS Loan For Reasons Other Than Adverse Credit History (Exceptional Circumstances)

In addition to cases in which a parent has been denied a Direct PLUS Loan due to adverse credit, a dependent undergraduate student may also be eligible for increased unsubsidized loan amounts if you determine and document the existence of exceptional circumstances other than adverse credit that would prevent a parent from borrowing a Direct PLUS Loan.

If you make such a determination, you may award increased Direct Unsubsidized Loan amounts to a dependent undergraduate even if the student's parent previously applied for a Direct PLUS Loan and was found to not have an adverse credit history. Similarly, if you make such a determination before a parent has requested a Direct PLUS Loan, you may award the increased Direct Unsubsidized Loan funds to the dependent student without requiring the parent to apply for a Direct PLUS Loan.

Examples of such exceptional circumstances include, but are not limited, to the following:

- The parent is incarcerated.
- The parent's whereabouts are unknown.
- The parent has filed for bankruptcy and has provided a letter from the bankruptcy court stating that as a condition of the bankruptcy filing, the parent may not incur any additional debt.
- The parent's income is limited to public assistance or disability benefits, and you have documented that the parent would not be able to repay the Direct PLUS Loan.
- You have examined the family financial information and documented the parent's likely inability to repay the Direct PLUS Loan due to an existing debt burden or the parent's expected income-to-debt ratio.
- The parent of a dependent student is not a U.S. citizen or permanent resident, is not a qualified alien, or is not able to provide evidence from the Department of Homeland Security (DHS) that they are in the United States for other than a temporary purpose with the intention of becoming a citizen or permanent resident.

Before originating a loan for the increased Direct Unsubsidized Loan amounts based on a parent's ineligibility for a Direct PLUS Loan due to adverse credit or other exceptional circumstances, you must document the basis of the dependent student's eligibility.

A determination that a parent is ineligible for a Direct PLUS Loan in one academic year based on adverse credit or other exceptional circumstances does not automatically support the dependent student's additional unsubsidized loan eligibility in subsequent years. If a dependent student is determined to be eligible for additional unsubsidized loan amounts in one academic year, you must re-examine and document that the basis for the student's eligibility continues to exist before originating additional unsubsidized loan amounts for the student in a subsequent year.

Annual Loan Limit for Graduate and Professional Students

The annual loan limit for graduate or professional students is shown below in Table 1C. Graduate and professional students are not eligible to receive Direct Subsidized Loans, so the annual loan limit for these students represents only Direct Unsubsidized Loans.

A student in an undergraduate program is not eligible for the graduate loan limit based on taking graduate coursework as a part of the undergraduate program. In contrast, a graduate student taking some undergraduate coursework is eligible for the graduate loan limit if the student is enrolled at least half time in courses (graduate or undergraduate) that can be applied to the graduate program. However, the student must already be admitted into the graduate program.

A student with a bachelor's degree who is taking preparatory work for graduate school (or whose full admission to the graduate program is contingent upon completion of certain undergraduate courses) is not eligible for graduate loan limits. See the discussion later in this chapter on annual loan limits for students taking preparatory coursework.

Graduate and Professional Students	Total (Unsubsidized Only)
All years	\$20,500

Loan Limit Level for Transfer Students

If you’re awarding a Direct Loan to a student who is transferring from a program at another school to a program at your school that is greater than one academic year in length, you may use the loan limits for a second-year or higher undergraduate if your school classifies the student at that level based on the number of academic credits it accepts from the prior school, or based on the granting of advance standing in the new program (but see below for guidance on when schools are **required** to use the third-year and beyond undergraduate annual loan limits for a transfer student).

Loan Limit When a Baccalaureate or Associate Degree Is Required for Admission to an Undergraduate Program

For a student who has an associate or baccalaureate degree that is required for admission into an undergraduate program, you **must** use the third-year and beyond undergraduate loan limits for that student.

Annual Loan Limits for Direct PLUS Loans

There are no fixed annual loan limits for Direct PLUS Loans. A graduate or professional student may be awarded a Direct PLUS Loan for up to the student’s COA minus OFA (see *Volume 3*, Chapter 3 for packaging rules). Therefore, a graduate or professional student who has received the maximum Direct Unsubsidized Loan amount for an academic year may have additional Direct PLUS Loan eligibility. Similarly, the total Direct PLUS Loan amount borrowed by a parent on behalf of a dependent student may not exceed the student’s estimated COA minus OFA the student receives for the period of enrollment. This is the only borrowing limit for Direct PLUS Loans.

Annual Loan Limit for Programs Greater Than One Academic Year, But Less Than Two Academic Years in Length

The “Eligibility and Certification Approval Report” (ECAR) lists “one-year” as the highest educational program offered by a school if its longest program is one academic year or more in length, but less than two academic years. Students who have successfully completed the first academic year of such programs can be treated as second-year undergraduates for annual loan limit purposes, even though the ECAR lists the school’s highest program offering as “one-year.” For instance, a student enrolled in a 1,500 clock-hour program would be eligible for the second-year loan limits after completing the first 900 clock hours and 26 weeks of instructional time. However, because the remaining portion of the program would be less than a full academic year in length, the loan limit would have to be prorated, as explained in Chapter 5 of this volume.

Annual Loan Limits for One-Year and Two-Year Programs

If a program can normally be completed in one year of full-time study, a student in that program can never receive more than the first-year annual loan limit, even if it takes the student more than one academic year to finish the program.

Similarly, a student in a program that students are expected to complete in two years can never receive more than the second-year annual loan limit for an academic year, even if individual students sometimes take more than two years to finish the program. However, some schools offer associate degree programs that have been approved by the school’s state licensing agency or accrediting agency as programs that require more than two academic years of study for a full-time student to complete. Students enrolled in such a program may receive Direct Loans at the third-year annual loan limit after they have successfully completed the first two academic years of the program and if the school has a grade level progression standard that allows for third year level loans.

Note also that a school may not link two stand-alone one-year programs by making one a prerequisite for admission and then classify students beginning the second one-year program as second-year undergraduates for loan limit purposes. However, hours or credits earned in a prior certificate program could be used to classify a transfer student at a grade level higher than grade level one if the student transfers into a program that is greater than one academic year in length and the new school accepts a year’s worth of credits or hours from the prior program. For instance, if a school admits a

transfer student from a certificate program and accepts 900 clock hours that the student earned toward its 1,500-hour program, the student could be eligible for the second-year loan limits if other students in the program are eligible for second-year loan limits after completing the first 900 hours of the program.

Annual Loan Limits for Preparatory Coursework and Teacher Certification Programs

In Chapter 1 of this volume we discussed instances in which a student may receive Direct Loans for coursework that is not part of an eligible program leading to a degree or certificate awarded by the school (preparatory coursework and teacher certification programs). The annual loan limits for students enrolled in preparatory coursework or teacher certification programs are shown in Tables 2A and 2B below.

Volume 8, Chapter 4, Table 2A: Annual Loan Limits for Preparatory Coursework (Maximum 12 Consecutive Months)

Preparatory coursework required for enrollment in an **undergraduate** program:

	Total (Subsidized and Unsubsidized)	Maximum Subsidized
Dependent undergraduates (excluding dependent students whose parents can't get Direct PLUS Loans)	\$ 2,625	\$ 2,625
Independent undergraduates (and dependent undergraduates whose parents can't get Direct PLUS Loans)	\$ 8,625	\$ 2,625

Preparatory coursework required for enrollment in a **graduate or professional** program:

	Total (Subsidized and Unsubsidized)	Maximum Subsidized
Dependent undergraduates (excluding dependent students whose parents can't get Direct PLUS Loans)	\$ 5,500	\$ 5,500
Independent undergraduates (and dependent undergraduates whose parents can't get Direct PLUS Loans)	\$12,500	\$ 5,500

Volume 8, Chapter 4, Table 2B: Annual Loan Limits for Teacher Certification Coursework

	Total (Subsidized and Unsubsidized)	Maximum Subsidized
Dependent undergraduates (excluding dependent students whose parents can't get Direct PLUS Loans)	\$ 5,500	\$ 5,500
Independent undergraduates (and dependent undergraduates whose parents can't get Direct PLUS Loans)	\$12,500	\$ 5,500

Note that for dependent undergraduates, the annual loan limits shown above in Tables 2A and 2B do not provide an additional unsubsidized loan amount beyond the maximum annual subsidized amount, as is the case with the loan limits for independent undergraduates and dependent undergraduates whose parents cannot get Direct PLUS Loans. For dependent undergraduates enrolled in preparatory coursework or teacher certification programs, there is just a single annual loan limit representing the maximum amount of subsidized and/or unsubsidized loans that the student may receive for an academic year.

For example, a dependent undergraduate taking preparatory coursework required for enrollment in a graduate or professional program could receive up to \$5,500 per academic year in Direct Loan funds, which could be all subsidized, all unsubsidized, or a combination of subsidized and unsubsidized. In contrast, an independent undergraduate taking the same preparatory coursework could receive up to \$12,500 per academic year, not more than \$5,500 of which could be subsidized.

Loan limits for preparatory coursework and teacher certification coursework are not subject to proration (see Chapter 5 of this volume) if the coursework is less than a full academic year.

Combined Undergraduate and Graduate Programs

Some programs combine undergraduate and graduate study and allow a student to complete both a bachelor's degree and a graduate or professional degree within the same program. These are referred to as "dual degree programs." For instance, a school could offer a 5-year dual degree program leading to both a bachelor's degree and a graduate or professional degree and could define the first three or four years of study as being at the undergraduate level, and the remaining year(s) of study as being at the graduate or professional level. A student may receive Direct Loans at the applicable undergraduate annual loan limits (as well as other *Title IV* aid at the undergraduate level) during the undergraduate portion of such a program, and then may receive Direct Loans at the graduate and professional student annual loan limit (and also Direct PLUS Loans) for the graduate and professional portion of the program.

See *Volume 1* for more detailed guidance on student eligibility for *Title IV* aid in programs that combine undergraduate and graduate study, including programs that lead **only** to a graduate or professional degree, but admit students who do not yet meet the regulatory requirements to be considered graduate or professional degree students.

Students Returning for a Second Baccalaureate Degree

If a student with a baccalaureate degree enrolls in another baccalaureate program, the student's grade level for loan limit purposes would be based on the amount of work that the school counts toward satisfying the requirements of the new program. For instance, if your school accepts 30 semester hours of a student's work in a previous baccalaureate program toward the requirements for a BS in Chemistry at your school and, on that basis, classifies the student at the second-year level, then the student would be eligible for second-year undergraduate loan limits (see "Loan Limit When a Baccalaureate or Associate Degree Is Required for Admission to an Undergraduate Program" earlier in this chapter for the loan limit that applies when a student is **required** to have a prior associate or baccalaureate degree as a condition for being admitted to an undergraduate program).

Students Who Transfer From a Graduate Program to an Undergraduate Program During an Academic Year

If a student transfers from a graduate program to an undergraduate program in the middle of an academic year, the undergraduate annual loan limit for the student's grade level applies but amounts previously borrowed at the graduate level within the same academic year do not count against the undergraduate annual loan limit. However, the total amount awarded for the academic year may not exceed the higher (graduate or professional) annual loan limit.

Volume 8, Chapter 4, Example 1: Transfer From a Graduate to Undergraduate Program During the Same Academic Year

A student who received \$10,250 in Direct Unsubsidized Loan funds for a fall semester loan as a graduate student enrolls in an undergraduate program at the same school in the spring semester of the school's fall-spring academic year and is classified as a third-year independent undergraduate. As a third-year independent undergraduate, the student's annual loan limit is \$12,500, not more than \$5,500 of which may be subsidized.

However, the student may not receive the full \$12,500, since that amount, when added to the \$10,250 the student received as a graduate student in the fall, would exceed the \$20,500 graduate or professional student annual loan limit. Therefore, the student’s maximum loan eligibility for the spring semester (if supported by COA and OFA) is \$10,250, not more than \$5,500 of which may be subsidized.

Increased Unsubsidized Annual Loan Limits for Certain Health Professions Students

There are higher annual Direct Unsubsidized Loan limits for some graduate and professional health professions students. Schools may award the increased unsubsidized amounts to students who are enrolled at least half time in certain health professions programs. The programs must be accredited by specific accrediting agencies.

The programs that are eligible for the increased Direct Unsubsidized Loan amounts, the applicable increased unsubsidized loan amounts, and the approved accrediting agencies for these programs are shown in Tables 3A and 3B below. As shown in the tables, the increased unsubsidized loan annual limits vary by program and academic year length.

Volume 8, Chapter 4, Table 3A: Health Professions Programs Eligible for an Additional \$20,000 or \$26,667

Additional \$20,000 in Unsubsidized Loans for an Academic Year Covering 9 months

Additional \$26,667 in Unsubsidized Loans for an Academic Year Covering 12 months

Program	Approved Accrediting Agency
Doctor of Allopathic Medicine	Liaison Committee on Medical Education
Doctor of Osteopathic Medicine	American Osteopathic Association, Bureau of Professional Education
Doctor of Dentistry	American Dental Association, Commission on Dental Accreditation
Doctor of Veterinary Medicine	American Veterinary Medical Association, Council on Education
Doctor of Optometry	American Optometric Association, Council on Optometric Education
Doctor of Podiatric Medicine	American Podiatric Medical Association, Council on Podiatric Medical Education
Doctor of Naturopathic Medicine, Doctor of Naturopathy	Council on Naturopathic Medical Education

Volume 8, Chapter 4, Table 3B: Health Professions Programs Eligible for an Additional \$12,500 or \$16,667

Additional \$12,500 in Unsubsidized Loans for an Academic Year Covering 9 months

Additional \$16,667 in Unsubsidized Loans for an Academic Year Covering 12 months

Program	Approved Accrediting Agency
Doctor of Pharmacy	Accreditation Council for Pharmacy Education

Graduate program in Public Health (including Master's and Doctoral degree programs in Public Health)	Council on Education for Public Health
Doctor of Chiropractic	Council on Chiropractic Education, Commission on Accreditation
Doctoral Degree in Clinical Psychology	American Psychological Association, Committee on Accreditation
Master's or Doctoral Degree in Health Administration	Commission on Accreditation of Healthcare Management Education

The increased unsubsidized amounts that an eligible health professions student may receive are in addition to the regular \$20,500 Direct Unsubsidized Loan annual loan limit for graduate and professional students. For example, a student enrolled in a nine-month Doctor of Dentistry program is eligible for the regular Direct Unsubsidized Loan annual maximum for a graduate or professional student (\$20,500), plus the maximum increased unsubsidized amount of \$20,000, for a total Direct Unsubsidized Loan maximum of \$40,500 per academic year.

Graduate and professional students who qualify for the higher annual Direct Unsubsidized Loan limits are also eligible for a higher combined subsidized and unsubsidized aggregate loan limit, as explained later in this chapter.

Proration of the Increased Health Professions Annual Loan Limit for an Academic Year Covering 10 or 11 Months

Tables 3A and 3B above show the increased unsubsidized loan limits for programs with an academic year of either nine months or 12 months. For eligible health professions programs with an academic year covering 10 or 11 months, the annual additional unsubsidized loan limit must be prorated. If the academic year covers 10 or 11 months, the prorated annual loan limit is determined by dividing the applicable loan limit for an academic year covering nine months by nine, and then multiplying the result by 10 or 11. For example, the prorated increased unsubsidized loan limit for a Doctor of Dentistry program with an 11-month academic year would be \$24,444, calculated as follows:

$$\begin{aligned}
 &\$20,000 \div 9 = \$2,222.22 \\
 &\$2,222.22 \times 11 = \$24,444.42, \text{ rounded to } \$24,444
 \end{aligned}$$

Foreign Schools May Not Award Increased Unsubsidized Loan Amounts

Foreign schools that participate in the Direct Loan Program may not award the increased Direct Unsubsidized Loan amounts to health professions students.

Aggregate Loan Limit Overview

As explained earlier in this chapter, there are limits on the maximum Direct Subsidized Loan and Direct Unsubsidized Loan amounts that a student may receive each academic year (annual loan limits). There are also limits on a student’s maximum outstanding total Direct Subsidized Loan and Direct Unsubsidized Loan debt. These are called aggregate loan limits. A borrower who has reached the aggregate borrowing limit for Direct Subsidized Loans and Direct Unsubsidized Loans may not receive additional loans. Once the loans are repaid, in full or in part, the borrower may apply for additional loans.

To ensure that a student doesn’t exceed the aggregate loan limits, the student’s FAFSA form data is matched with NSLDS. If the student has exceeded or is approaching the aggregate loan limits, this will be noted in the ISIR. If a student transfers to your school, you must inform NSLDS so that it can begin the Transfer Student Monitoring process.

Aggregate Loan Limits for Direct Subsidized Loans and Direct Unsubsidized Loans

The aggregate loan limits for Direct Subsidized Loans and Direct Unsubsidized Loans are shown in Table 4 below.

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[34 CFR 685.203\(d\), \(e\)](#)

Volume 8, Chapter 4, Table 4: Aggregate Limits for Direct Subsidized Loans and Direct Unsubsidized Loans

	Total (Subsidized and Unsubsidized)	Maximum Subsidized
Dependent undergraduates (excluding those whose parents can't get Direct PLUS Loans)	\$31,000	\$23,000
Independent undergraduates (and dependent undergraduates whose parents can't get Direct PLUS Loans)	\$57,500	\$23,000
Graduate and professional students	\$138,500	\$65,500

Notes on the aggregate loan limits shown in Table 4:

- The “Total (Subsidized and Unsubsidized)” column shows the maximum combined outstanding subsidized and unsubsidized loan debt for a student. The “Maximum Subsidized” column shows the maximum portion of the combined subsidized and unsubsidized limit that may be subsidized. For example, a dependent undergraduate may have up to a maximum of \$31,000 in combined subsidized and unsubsidized outstanding loan debt, but no more than \$23,000 of this amount may consist of subsidized loans.
- Capitalized interest (unpaid accrued interest that has been added to the principal balance of a loan) is not counted toward a borrower’s aggregate loan limits (see “Checking Remaining Loan Eligibility Under Aggregate Loan Limits” below for more information).
- The \$138,500 combined subsidized and unsubsidized aggregate loan limit for graduate and professional students includes loans received for undergraduate study.
- The \$65,500 subsidized aggregate loan limit for graduate and professional students includes subsidized loans received for prior undergraduate study. It also includes any subsidized loans received for prior graduate or professional study before July 1, 2012, when graduate and professional students were eligible to receive subsidized loans (subsidized loan eligibility for graduate and professional students was eliminated effective for loan periods beginning on or after July 1, 2012).
- The loan amounts counted toward a borrower’s aggregate loan limits include any outstanding Direct Subsidized Loan and Direct Unsubsidized Loan amounts, and also any outstanding Subsidized and Unsubsidized Federal Stafford Loans previously borrowed under the FFEL Program (no new loans have been made under the FFEL Program since June 30, 2010).
- If a borrower has a Direct Consolidation Loan or a Federal Consolidation Loan (a consolidation loan made under the FFEL Program), the outstanding amount of the consolidation loan representing any Direct Subsidized Loans, Direct Unsubsidized Loans, Subsidized Federal Stafford Loans, or Unsubsidized Federal Stafford Loans that were paid off by the consolidation loan is counted toward the borrower’s aggregate subsidized and unsubsidized loan limits accordingly.

Aggregate Loan Limit for an Undergraduate Student With a Graduate Degree

In some cases, a student who previously received undergraduate and graduate degrees returns to school to complete a second undergraduate program. Only the loans that the student received for the first undergraduate program are included in determining the student’s remaining eligibility for loans for the second undergraduate program, up to the undergraduate aggregate limits. Although loans received for graduate study are not counted toward a student’s undergraduate aggregate loan limit, the combined loan amounts received for undergraduate and graduate programs may not exceed the total allowable aggregate loan limits.

Volume 8, Chapter 4, Example 2: Returning to an Undergraduate Program After Receiving Loans for Graduate Study

An independent student has received the following loan amounts for a first undergraduate program and a graduate program:

	Subsidized:	Unsubsidized:	Total
Undergraduate	\$19,000	\$26,000	\$45,000
Graduate	\$0	\$86,000	\$86,000
Total	\$19,000	\$112,000	\$131,000

The student has now enrolled in a second undergraduate program. Only the loans received for the first undergraduate program are counted toward the student’s undergraduate aggregate loan limit. Because the total amount received for the first undergraduate program (\$45,000) does not exceed the aggregate loan limit for an independent undergraduate (\$57,500, maximum \$23,000 subsidized), the student has remaining loan eligibility for the second undergraduate program.

The difference between the independent undergraduate aggregate loan limit and the total amount of the loans received for the first undergraduate program is \$12,000. However, the student may not receive the full \$12,000, because that amount, when combined with the amount received for the first undergraduate program and the amount received for the graduate program, would exceed the combined undergraduate and graduate aggregate loan limit of \$138,500:

$$\$45,000 + \$86,000 + \$12,500 = \$143,500$$

Therefore, the student’s remaining loan eligibility for the second undergraduate program is \$7,500 (\$138,500 minus \$131,000 already received for the first undergraduate program and the graduate program). Not more than \$4,000 of this amount may be subsidized (\$23,000 undergraduate subsidized aggregate loan limit minus \$19,000 in subsidized loans received for the first undergraduate program).

Treatment of Direct Subsidized Loans and Direct Unsubsidized Loans Received for Teacher Certification Coursework or Preparatory Coursework

Students receiving Direct Loans for teacher certification coursework or for preparatory coursework (including preparatory coursework required for admission to a graduate or professional program) are considered to be undergraduates for all *Title IV* purposes. Therefore, Direct Subsidized Loans and Direct Unsubsidized Loans that a student receives for teacher certification coursework or preparatory coursework are counted against the student's undergraduate aggregate loan limits. (See Chapter 1 of this volume and the discussion earlier in this chapter for guidance on Direct Loan eligibility for

teacher certification and preparatory coursework and the applicable annual loan limits.)

Higher Aggregate Loan Limit for Certain Health Professions Students

As explained earlier in this chapter, graduate and professional students who are enrolled in certain health professions programs are eligible for higher annual Direct Unsubsidized Loan limits. These students also have a higher combined subsidized and unsubsidized aggregate loan limit.

The combined subsidized and unsubsidized aggregate loan limit for graduate and professional health professions students who are eligible to receive the increased annual unsubsidized amounts is \$224,000. Not more than \$65,500 of this amount may be from subsidized loans (see the notes following Table 4 above regarding the \$65,500 subsidized aggregate loan limit for graduate and professional students).

If a student who received increased Direct Unsubsidized Loan amounts for a qualifying health profession program later enrolls in a non-health professions program, the student is no longer eligible for the increased Direct Unsubsidized Loan limits. However, the additional loan amounts received for the health professions program are not counted toward the normal aggregate loan limit for that student.

Checking Remaining Eligibility Under the Aggregate Loan Limits

Before originating a Direct Subsidized Loan or Direct Unsubsidized Loan, it's important to make sure the student still has remaining eligibility under the aggregate loan limits. As long as there is no conflicting information, you may rely on the financial aid history (provided on the ISIR as well as on the NSLDS Professional Access website) and the Transfer Student Monitoring process (for transfer students only) to tell you if a student is about to exceed the applicable aggregate loan limit. (See *Volume 1*, Chapter 3 for more detail on NSLDS financial aid history, which may also affect eligibility for other *Title IV* programs.)

The Loan History in NSLDS for a borrower who has received *Title IV* loans shows Aggregate Loan Information for the borrower's outstanding subsidized and unsubsidized loans. The Subsidized and Unsubsidized Aggregate Outstanding Principal Balance amounts shown for a borrower in NSLDS do not include unpaid accrued interest, capitalized interest (unpaid interest that has been added to the principal balance of the loan), or other charges, as these amounts are not counted against the aggregate loan limits.

For each individual loan that a borrower has received, NSLDS shows both the Outstanding Principal Balance (OPB) and the Aggregate Outstanding Principal Balance (Agg. OPB). The OPB is what the borrower owes, which may include capitalized interest and other charges. The Agg. OPB is the portion of the OPB that counts against the aggregate loan limits for subsidized and unsubsidized loans.

For instance, suppose a student has a Direct Unsubsidized Loan disbursed in the amount of \$5,000. Over time, \$200 in interest accrues and is capitalized. Assuming that the borrower has made no payments on the loan, the OPB on the loan will be \$5,200 (this is the amount the borrower owes), and the Agg. OPB will be \$5,000 (this is the amount that is counted against the aggregate loan limit). If you are looking at information in NSLDS for individual loans, it is the Agg. OPB that you should use to determine the student's remaining loan eligibility under the applicable aggregate loan limit.

The Subsidized and Unsubsidized Aggregate Outstanding Principal Balance amounts displayed in NSLDS for a borrower also include the outstanding portion of consolidation loans (both Direct Consolidation Loans and Federal Consolidation Loans made under the FFEL program) attributable to Direct Subsidized Loans, Direct Unsubsidized Loans, Subsidized Federal Stafford Loans, and Unsubsidized Federal Stafford Loans that were repaid by the consolidation loan.

Unallocated Consolidation Loan Amounts

NSLDS may also show a "Consolidation Loans, Unallocated" amount that is not counted against a borrower's aggregate loan limits. The "Consolidation Loans, Unallocated" amount represents the portion of a consolidation loan that cannot be attributed to other loans in the borrower's loan history. For example, it may represent capitalized interest or non-*Title IV* loans that were consolidated. You are not responsible for determining the origin of any unallocated consolidation loan amounts.

Treatment of Consolidated Perkins Loans and PLUS Loans

A consolidated Perkins Loan or PLUS loan becomes part of the unsubsidized portion of a consolidation loan, but it is not

counted toward the borrower’s aggregate Direct Loan limits.

Effect of a Change in Student Status on Aggregate Loan Limits

In some cases, a student may qualify for higher loan limits but then lose eligibility for the higher limits due to a change in status. One such situation is when a dependent undergraduate qualifies for additional Direct Unsubsidized Loan amounts because the student’s parent is unable to obtain a Direct PLUS Loan, but in a subsequent academic year the student’s parent qualifies for a Direct PLUS Loan. In this circumstance the dependent student no longer qualifies for the additional unsubsidized loan amounts at the higher independent undergraduate annual and aggregate loan limits. During any academic year when a dependent student’s parent qualifies for a Direct PLUS Loan, the student is subject to the dependent undergraduate annual and aggregate loan limits, but only loan amounts the student otherwise would have been eligible to receive under the dependent undergraduate annual loan limits are counted when determining the student’s remaining eligibility under the \$31,000 combined subsidized and unsubsidized dependent undergraduate aggregate limit (see Example 3 below).

A similar situation occurs when a student who received loans for a graduate or professional degree program later returns to school and enrolls in an undergraduate program. The student is then subject to the undergraduate annual and aggregate loan limits, but only loan amounts the student previously received as an undergraduate are counted when determining the student’s remaining eligibility under the undergraduate aggregate loan limit (see Example 2 earlier in this chapter).

Volume 8, Chapter 4, Example 3: Aggregate Loan Limits and Additional Direct Unsubsidized Loan Amounts When Parents Are Unable To Obtain Direct PLUS Loans

A dependent student receives additional Direct Unsubsidized Loan funds (up to the additional amounts available to independent undergraduates) for the first three years of a four-year program because the student’s parent is unable to obtain a Direct PLUS Loan for each of those years.

For each of the first three years, the student receives the maximum subsidized and unsubsidized loan amounts under the independent student annual loan limits (remember that the annual subsidized maximums are the same for dependent and independent undergraduates):

First Year (independent student loan limit)	\$3,500 subsidized	\$6,000 unsubsidized (\$4,000 more than dependent maximum)
Second Year (independent student loan limit)	\$4,500 subsidized	\$6,000 unsubsidized (\$4,000 more than dependent maximum)
Third Year (independent student loan limit)	\$5,500 subsidized	\$7,000 unsubsidized (\$5,000 more than dependent maximum)
Total	\$13,500 subsidized	\$19,000 unsubsidized (\$13,000 more than dependent maximum)

In the fourth year, the parent is eligible to borrow a Direct PLUS Loan, so the student is then subject to the annual and aggregate loan limits for a dependent undergraduate. The dependent student received a total of \$13,500 in Direct Subsidized Loan funds and \$19,000 in Direct Unsubsidized Loan funds (\$32,500 combined subsidized and unsubsidized total) for the first three years when the student’s parent was unable to obtain Direct PLUS Loans. These are the same amounts that an independent student who qualified for the maximum annual loan limit each year could have received. If the student’s parent had been able to receive Direct PLUS Loans during each of the first three years and the student received the maximum subsidized and unsubsidized loan amounts under the

dependent student annual loan limits, the total loan amounts received would have been \$13,500 in Direct Subsidized Loan funds and \$6,000 in Direct Unsubsidized Loan funds (\$19,500 combined subsidized and unsubsidized total).

Because the combined subsidized and unsubsidized loan amount of \$32,500 that the student received for years one through three exceeds the \$31,000 dependent undergraduate aggregate loan limit, it might appear that the student would have no remaining loan eligibility for the fourth year of the program. However, only the \$19,500 in combined subsidized and unsubsidized loan funds that the student could have received under the dependent student annual loan limits are counted against the \$31,000 aggregate, leaving the student with \$11,500 in remaining loan eligibility under the dependent undergraduate aggregate loan limit, not more than \$9,500 of which may be subsidized. Therefore, in the fourth year of the program (when the student's parent is eligible to receive a Direct PLUS Loan), the student could receive up to the full combined subsidized and unsubsidized annual loan limit for a dependent fourth-year undergraduate (that is, \$7,500, not more than \$5,500 of which may be subsidized).

Chapter 5

Loan Limit Proration

Proration Overview

The annual maximum loan amount an undergraduate student may receive must be prorated (reduced) when the borrower is:

- Enrolled in a program that is shorter than a full academic year; or
- Enrolled in a program that is one academic year or more in length but is in a remaining period of study (a period of study at the end of which a student will have completed all requirements of the program) that is shorter than a full academic year.

With one exception (see "Proration of the Annual Loan Limit for Students who Graduate Early From Clock-Hour Programs" later in this chapter), the annual loan limits for Direct Subsidized Loans and Direct Unsubsidized Loans are prorated only in these two situations. Loan limits are not prorated based on a student’s enrollment status, such as when a student is enrolled less than full time, or when a student is enrolled for a period of less than a full academic year that is not a remaining period of study.

The annual loan limit for Direct Unsubsidized Loans is not prorated for students enrolled in graduate or professional level programs. Loan proration requirements also do not apply to students taking preparatory coursework or coursework necessary for teacher certification. This is because the annual loan limit must be prorated only when a student is enrolled in a program or remaining portion of a program that is shorter than an academic year. Students taking preparatory coursework or teacher certification coursework are not considered to be enrolled in a program for purposes of awarding *Title IV* aid.

It’s important to understand that loan limit proration determines the **maximum loan amount** that a student may borrow for a program or remaining balance of a program, not the actual loan amount a student is eligible to receive. In some cases, the loan amount a student is eligible to receive (based on costs, SAI, and OFA) may be less than the prorated loan limit.

Loan Limit Proration

[34 CFR 685.203\(a\), \(b\), \(c\)](#)

Use of Fractions vs. Decimals When Prorating Loan Limits

As we explain in more detail below, proration involves multiplying the annual loan limit by a fraction. You may choose to convert the fraction to a decimal and then multiply the annual loan limit by the decimal, but this conversion is not a requirement. However, you should be consistent in the method you use, since the fraction and decimal calculations sometimes result in slightly different prorated loan limits, as shown in the examples later in the chapter.

Using the School’s Academic Year Definition If Longer Than the Title IV Minimum

As explained above, proration of the annual loan limit is required when an undergraduate student is enrolled in a program that is shorter than an academic year or is enrolled in a remaining period of study that is shorter than an academic year. A school may choose to define its academic year as longer in weeks or hours than the minimum statutory requirements. If so, the school’s standard – not the statutory minimum – determines whether a program or a final period of study is shorter than an academic year.

Separate Calculations for the Combined Subsidized and Unsubsidized Annual Loan Limit and the Maximum Subsidized

Annual Loan Limit

As explained in Chapter 4 of this volume, for undergraduate students there is a maximum combined annual loan limit for Direct Subsidized Loans and Direct Unsubsidized Loans, and a maximum portion of that combined annual loan limit that a student may receive in Direct Subsidized Loans. If the annual loan limit for an undergraduate student must be prorated, you must first determine the combined Direct Subsidized Loan and Direct Unsubsidized Loan prorated annual loan limit, and then separately determine the Direct Subsidized Loan prorated annual loan limit. This is illustrated in the proration examples below.

Prorating Loan Limits for Programs Shorter Than an Academic Year

If an academic program is shorter than a full academic year in length, you must multiply the applicable loan limit(s) by the **lesser** of —

Semester, trimester, quarter, or clock hours enrolled in program

Semester, trimester, quarter, or clock hours in academic year

or

Weeks enrolled in program

Weeks in the academic year

The result is the prorated annual loan limit for that program.

Proration Examples: Programs Shorter Than an Academic Year

Examples 1 and 2 illustrate how the prorated annual loan limit is determined when a student is enrolled in a program that is shorter than an academic year.

Volume 8, Chapter 5, Example 1: Clock-Hour Program Shorter Than an Academic Year

A dependent student is enrolled in a 400 clock-hour, 12-week program (a “short-term program” as described in *Volume 2*, Chapter 2). The school defines the academic year for this program as 900 clock hours and 26 weeks of instructional time.

To determine the maximum loan amount the student can borrow, convert the fractions based on weeks and hours to decimals:

12 weeks in program/26 weeks in academic year = 0.46

400 hours in program/900 hours in academic year =0.44

Multiply the smaller decimal (0.44) by the combined Direct Subsidized Loan and Direct Unsubsidized Loan annual loan limit for a first-year dependent undergraduate (\$5,500, not more than \$3,500 of which may be subsidized):

\$5,500 x 0.44 = \$2,420 combined subsidized and unsubsidized prorated annual loan limit

To determine the maximum portion of the \$2,420 prorated annual loan limit that the student may receive in subsidized loan funds, multiply the maximum subsidized annual loan limit of \$3,500 by the smaller decimal (0.44):

$$\$3,500 \times 0.44 = \$1,540 \text{ subsidized prorated annual loan limit}$$

The maximum combined Direct Subsidized Loan and Direct Unsubsidized Loan amount the student can borrow for the program is \$2,420, but no more than \$1,540 of this amount may be in subsidized loans.

Note: In Example 1 above and in the other proration examples that follow, the fractions are converted to decimals. As an alternative you could choose to multiply the annual loan limit by the original fraction, though you should be consistent in using one method or the other. Using the fraction 400/900 in Example 1 instead of the decimal 0.44 would result in a slightly higher prorated loan limit: $\$5,500 \times 400/900 = \$2,444$.

Volume 8, Chapter 5, Example 2: Non-Term Credit-Hour Program Shorter Than an Academic Year

An independent student is enrolled in a 24 quarter-hour, 20-week program. The school defines the academic year for this program as 36 quarter hours and 30 weeks of instructional time.

To determine the maximum loan amount the student can borrow, convert the fractions based on weeks and quarter-hours to decimals:

$$20 \text{ weeks in program} / 30 \text{ weeks in academic year} = 0.67$$

$$24 \text{ hours in program} / 36 \text{ hours in academic year} = 0.67$$

Multiply the smaller decimal (in this case, both are 0.67) by the combined Direct Subsidized Loan and Direct Unsubsidized Loan annual loan limit for a first-year independent undergraduate (\$9,500, not more than \$3,500 of which may be subsidized):

$$\$9,500 \times 0.67 = \$6,365 \text{ combined subsidized and unsubsidized prorated annual loan limit}$$

To determine the maximum portion of the \$6,365 prorated annual loan limit the student may receive in subsidized loan funds, multiply the maximum subsidized annual loan limit of \$3,500 by the same decimal (0.67):

$$\$3,500 \times 0.67 = \$2,345 \text{ subsidized prorated annual loan limit}$$

The maximum combined Direct Subsidized Loan and Direct Unsubsidized Loan amount the student can borrow for the program is \$6,365, not more than \$2,345 of which may be in subsidized loans.

Note: Using the fraction 24/36 in Example 2 instead of the decimal 0.67 would result in a slightly lower prorated loan limit: $\$9,500 \times 24/36 = \$6,333$.

Prorating Loan Limits for Remaining Periods Shorter Than an Academic Year

You must also prorate loan limits for students enrolled in remaining periods of study shorter than an academic year. This circumstance can occur when a student is enrolled in a program that is one academic year or more in length, but the remaining period of study needed to complete the program (sometimes called a “final” period of study) will be shorter than an academic year.

Proration is required only when you know in advance that a student will be enrolled for a remaining period of study that is shorter than an academic year. With one exception, if a student originally enrolls for a remaining period of study that is a full academic year in length, but completes the program in less than a full academic year, there is no requirement to retroactively prorate the annual loan limit (for the exception, see “Proration of the Annual Loan Limit for Students Who

Graduate Early From a Clock-Hour Program” later in this chapter).

In a **standard-term program, or a credit-hour program using SE9W nonstandard terms**, a remaining period of study is considered shorter than an academic year if the remaining period contains fewer terms than the number of terms covered by the school’s *Title IV* academic year. For programs that are offered in a Scheduled Academic Year (SAY; see Chapter 6), the number of terms covered in the school’s *Title IV* academic year usually does not include a summer “header” or “trailer” term.

Consider a student who is enrolled in a four-year program that is offered in an SAY consisting of three quarters plus a summer trailer, and who has completed four academic years of study. The student needs to attend an additional quarter term to complete the program requirements. The final quarter term falls in a new academic year; therefore the annual loan limit must be prorated because the remaining period of study (a single quarter) is less than a full academic year.

Similarly, if a student enrolled in a two-year program not offered in an SAY (where the *Title IV* academic year covers two 15-week semesters) has completed two academic years of study, but needs to return for an additional semester to complete the program requirements, the loan limit must be prorated if the student receives a loan for the final semester.

Note that for standard-term programs or credit-hour programs with SE9W nonstandard terms, the length of the loan period does not determine whether a student is enrolled in a remaining period of study that is shorter than an academic year. The determining factor is the length of the remaining period of study in which the student is enrolled, which may not be the same as the loan period. For example, if an undergraduate student is enrolled for a full SAY consisting of fall and spring semesters, and will complete the program at the end of the spring term, but is enrolled less than half time during the spring, the student is eligible to receive a Direct Loan only for the fall semester. Although the loan period (fall only) is shorter than an academic year, the remaining period of study (fall through spring) is a full academic year. Therefore, if the student receives a Direct Loan in the fall, proration of the annual loan limit is not required.

In a **clock-hour program, non-term program, or a program with non-SE9W nonstandard terms**, a remaining period of study is considered less than an academic year if it consists of fewer clock or credit hours than the program’s defined *Title IV* academic year. In contrast to standard term and SE9W nonstandard term programs, if a student enrolled in a clock-hour, non-term, or non-SE9W nonstandard term program is in a remaining period of study shorter than an academic year and receives a Direct Loan, the loan period and the remaining period of study will always be the same. This is because for these programs the minimum loan period is the lesser of the length of the program (or remaining portion of a program) or the academic year.

For all types of programs, you determine the prorated loan limit for a student enrolled in a remaining period of study less than an academic year by multiplying the applicable annual loan limit by the following fraction:

Semester, trimester, quarter, or clock hours enrolled in program

Semester, trimester, quarter, or clock hours in academic year

Unlike proration for programs that are shorter than an academic year, there is no comparison of weeks and hours. **Only the credit or clock hours that the student is scheduled to attend, or is actually attending, at the time of origination are used in the calculation.**

Proration Examples: Remaining Periods of Study Shorter Than an Academic Year

Examples 3 through 7 illustrate how the prorated annual loan limit is determined when a student is enrolled in a remaining period of study shorter than an academic year.

A dependent student is enrolled in a two-year credit-hour program offered in standard terms (quarters). The school defines the academic year for the program as 36 quarter hours and 30 weeks of instructional time (covering three quarters: fall, winter, and spring).

The student has attended the program for six quarters (two academic years), but to finish the program needs to complete an additional six hours (half time) in the fall quarter of the next academic year:

Fall (half time: 6 hours)	Winter (not enrolled)	Spring (not enrolled)
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To determine the prorated Direct Loan limit for the student’s remaining period of study (one quarter), convert the fraction based on the hours that the student is expected to attend and the hours in the academic year to a decimal:

$$6 \text{ hours in fall} / 36 \text{ hours in academic year} = 0.17$$

Multiply this decimal by the combined Direct Subsidized Loan and Direct Unsubsidized Loan annual loan limit for a dependent second-year undergraduate (\$6,500, not more than \$4,500 of which may be subsidized):

$$\$6,500 \times 0.17 = \$1,105 \text{ combined subsidized and unsubsidized prorated annual loan limit}$$

To determine the maximum portion of the \$1,105 prorated annual loan limit that the student may receive in subsidized loan funds, multiply the maximum subsidized annual loan limit of \$4,500 by the same decimal (0.17):

$$\$4,500 \times 0.17 = \$765 \text{ subsidized prorated annual loan limit}$$

The maximum combined Direct Subsidized Loan and Direct Unsubsidized Loan amount the student can borrow for the remaining portion of the program is \$1,105, not more than \$765 of which may be subsidized.

Volume 8, Chapter 5, Example 4: Remaining Period = Two Semesters, With Less Than Half-Time Enrollment in One Term

The student from Example 3 transfers to a BA program at a different school. The academic year for the program contains two semesters, fall and spring. During the second year of the BA program, the student will be enrolled full time in the fall and less than half time in the spring, and will graduate at the end of the spring term:

Fall (full time)	Spring (less than half time)
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Although the student is not eligible to receive a Direct Loan for the spring term, the remaining period of study (two semesters) is equal to a full academic year. Therefore, proration of the annual loan limit is not required if the student receives a Direct Loan for the fall term.

Volume 8, Chapter 5, Example 5: Remaining Period Shorter Than an Academic Year, With Less Than Half-Time Enrollment in One Term

A dependent fourth-year undergraduate is enrolled in a program with a defined academic year of 36 quarter hours and 30 weeks of instructional time, covering three quarters (fall, winter, and spring). The student will attend the fall and winter quarters, but not the spring quarter, and will graduate at the end of the winter term.

The student will be enrolled for 12 quarter hours (full time) during the fall quarter, but will be enrolled for only three hours (less than half time) in the winter quarter:

Fall (full time: 12 hours)	Winter (less than half time: 3 hours)	Spring (not enrolled)
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The student's final period of study (two terms) is shorter than an academic year, so the annual loan limit must be prorated. However, because the student will be enrolled less than half time during the winter quarter (and therefore ineligible to receive Direct Loan funds for that term), the loan period will cover the fall quarter only. Only the 12 quarter hours will be used for the fall term are to determine the prorated annual loan limit.

To determine the prorated loan limit for the final period of study, convert the fraction based on the hours that the student is expected to attend in the fall quarter and the hours in the academic year to a decimal:

12 hours enrolled in fall/36 hours in academic year = 0.33

Multiply this decimal by the combined Direct Subsidized Loan and Direct Unsubsidized Loan annual loan limit for a dependent fourth-year undergraduate (\$7,500, not more than \$5,500 of which may be subsidized):

$\$7,500 \times 0.33 = \$2,475$ combined subsidized and unsubsidized prorated annual loan limit

To determine the maximum portion of the \$2,475 prorated annual loan limit that the student may receive in subsidized loan funds, multiply the maximum subsidized annual loan limit of \$5,500 by the same decimal (0.33):

$\$5,500 \times 0.33 = \$1,815$ subsidized prorated annual loan limit

The total prorated annual loan limit for the fall quarter loan is \$2,475, not more than \$1,815 of which may be subsidized.

Volume 8, Chapter 5, Example 6: Remaining Period = Two Quarters, Separated by a Period of Non-Enrollment

A school has an academic year that covers three quarters: fall, winter, and spring. An independent fourth-year undergraduate will be enrolled full time in the fall and spring quarters, but will not attend the winter quarter, and will graduate at the end of the spring quarter:

Fall (full time: 12 hours)	Winter (not enrolled)	Spring (full time: 12 hours)
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Because the fall quarter is in the same academic year as the student's final quarter of attendance, it is part of the remaining period of study, even though there is a term between the fall and spring quarters in which the student will not be enrolled. As explained under "Loan Periods" in Chapter 2, the school may originate a single loan for a loan period covering the fall, winter, and spring quarters (but no costs associated with the winter quarter may be included when determining the loan amount the student is eligible to receive).

The remaining period of study (two terms) is shorter than an academic year, so the annual loan limit for each loan must be prorated based on the total number of hours for which the student is enrolled in the fall and spring quarters.

The prorated loan limit is determined by converting the fraction based on the combined number of hours in the fall and spring terms to a decimal:

$$24 \text{ hours enrolled in fall and spring} / 36 \text{ hours in academic year} = 0.67$$

Note: In this example the decimal is rounded up:

$$24/36 = 0.666, \text{ rounded up to } 0.67$$

It would also be acceptable to truncate the decimal to 0.66, but you should be consistent in the method used, since rounding up vs. truncating will result in slightly different amounts (see below).

Multiply this decimal by the combined subsidized and unsubsidized annual loan limit for an independent fourth-year undergraduate (\$12,500, not more than \$5,500 of which may be subsidized):

$$\$12,500 \times 0.67 = \$8,375 \text{ combined subsidized and unsubsidized prorated annual loan limit for the fall and spring terms.}$$

To determine the maximum portion of the \$8,375 prorated annual loan limit that the student may receive in subsidized loan funds for the fall and spring terms, multiply the maximum subsidized annual loan limit of \$5,500 by the same decimal (0.67):

$$\$5,500 \times 0.67 = \$3,685 \text{ subsidized prorated annual loan limit for the fall and spring terms.}$$

The maximum loan amount the student may receive for the two terms in the final period of study (fall and spring) combined is \$8,375, not more than \$3,685 of which may be subsidized.

As an alternative, the school could choose to originate separate fall-only and spring-only loans. With this option, the prorated loan limit is determined separately for each term by converting the fraction based on the number of hours in each term to a decimal:

$$12 \text{ hours enrolled in term} / 36 \text{ hours in academic year} = 0.33$$

This decimal is then be multiplied by the combined subsidized and unsubsidized annual loan limit for an independent fourth-year undergraduate:

$$\$12,500 \times 0.33 = \$4,125 \text{ combined subsidized and unsubsidized prorated annual loan limit for a single term (fall or spring)}$$

To determine the maximum portion of the \$4,125 prorated annual loan limit that the student may receive in subsidized loan funds for a single term, the subsidized annual loan limit of \$5,500 is multiplied by the same decimal (0.33):

$$\$5,500 \times 0.33 = \$1,815 \text{ subsidized prorated annual loan limit for a single term (fall or spring)}$$

The prorated loan limit for each single-term loan (fall-only and spring-only) in the remaining period of study is \$4,125, not more than \$1,815 of which may be subsidized. This means that the maximum loan amount the student may receive for the two terms in the final period of study combined is \$8,250, not more than \$3,630 of which may be subsidized.

Note: With the alternate approach of originating separate fall-only and spring-only loans, the total loan amount the student receives is slightly less than the total amount determined using the single loan approach with a fall-winter-spring loan period, as described earlier in this section. This is due to rounding up the fraction to 0.67 in the single loan approach. If the fraction used in the single-loan period approach were instead truncated to 0.66, both approaches would result in the same total loan amount.

A school has an 1800 clock-hour program with a defined academic year of 900 clock hours and 26 weeks of instructional time. A dependent undergraduate student successfully completes the first 900 clock hours of the program in 22 weeks of instructional time. However, the student must complete an additional four weeks of instructional time before receiving a second loan (see Chapter 6 of this volume).

After 26 weeks of instructional time have elapsed, the student has successfully completed 1,040 clock hours and may then receive a second loan. However, the loan limit must be prorated based on the number of clock hours remaining in the program at this point (760). To determine the prorated loan limit for the student's second loan, convert the fraction based on the number of clock hours remaining to a decimal:

$760 \text{ hours remaining in program} / 900 \text{ hours in academic year} = 0.84$

Multiply this decimal by the combined Direct Subsidized Loan and Direct Unsubsidized Loan annual loan limit for a dependent second-year undergraduate (\$6,500, not more than \$4,500 of which may be subsidized):

$\$6,500 \times 0.84 = \$5,460$ combined subsidized and unsubsidized prorated annual loan limit

To determine the maximum portion of the \$5,460 prorated annual loan limit that the student may receive in subsidized loan funds, multiply the maximum subsidized annual loan limit of \$4,500 by the same decimal (0.84):

$\$4,500 \times 0.84 = \$3,780$ subsidized prorated annual loan limit

The total prorated loan limit for the remaining period of study is \$5,460, not more than \$3,780 of which may be subsidized.

Proration of the Annual Loan Limit for Students Who Graduate Early From a Clock-Hour Program

Under the regulations that govern the treatment of *Title IV* funds when a student withdraws, a student who completes all the requirements for graduation from a program before completing the days or hours that they were scheduled to complete is not considered to have withdrawn, and no return of *Title IV* funds calculation is required (see *Volume 5* for more detail). However, a school may be required to return a portion of the Direct Loan funds that were disbursed to a student who successfully completes the requirements for graduation from a clock-hour program before completing the number of clock hours that they were scheduled to complete.

A student's eligibility to receive *Title IV* aid for a clock-hour program is based, in part, on the total number of clock hours in the program. If a school allows a student to graduate from a clock-hour program without completing all the originally established hours for the program, the school has effectively shortened the program length and reduced a student's *Title IV* aid eligibility for the program. In this circumstance, the school must prorate (or re-prorate) the annual loan limit for the student based on the number of hours the student actually completed, and after this recalculation, the school must return to the Department any portion of the Direct Loan funds the student received that exceed the newly prorated (or re-prorated) annual loan limit. (For a student who received a Pell Grant, the school must also recalculate the student's Pell Grant award in this situation. See *Volume 7* for more information.)

This requirement applies **only** to clock-hour programs, and it applies regardless of the length of the program or remaining portion of a program. In some cases, this means that a previously prorated annual loan limit must be re-prorated.

Examples 8 and 9 illustrate the requirement described above.

A dependent student enrolls in a 900 clock-hour program, with the academic year defined as 900 clock hours and 26 weeks of instructional time. The school assumes that the student will complete 900 clock hours.

The combined subsidized and unsubsidized annual loan limit for a dependent first-year undergraduate is \$5,500, not more than \$3,500 of which may be subsidized. The student qualifies to receive the maximum annual combined loan limit in the form of a \$3,500 Direct Unsubsidized Loan and a \$2,000 Direct Unsubsidized Loan. Each loan is paid in two equal disbursements, as shown below.

Original Direct Subsidized Loan Amount	Direct Subsidized Loan First Disbursement	Direct Subsidized Loan Second Disbursement
\$3,500	\$1,750	\$1,750
Original Direct Unsubsidized Loan Amount	Direct Unsubsidized Loan First Disbursement	Direct Unsubsidized Loan Second Disbursement
\$2,000	\$1,000	\$1,000

The school considers the student to have met the requirements for graduation from the program after the student has completed only 750 of the originally scheduled 900 clock hours. As soon as practicable after determining that the student will meet the graduation requirements after completing only 750 clock hours, the school must prorate the student's Direct Loan annual loan limit because the student is now treated as having been enrolled in a program shorter than an academic year in length (i.e., as though the student had originally enrolled in a 750 clock-hour program). However, in this circumstance, only the number of clock hours that the student completed are used to determine the prorated loan limit. There is no comparison of hours and weeks fractions, as is normally required when prorating the Direct Loan annual loan limit for students who are enrolled in programs shorter than an academic year.

The school determines the prorated annual loan limit by multiplying the applicable annual loan limit by the number of clock hours the student completed, then dividing the result by the number of clock hours in the program's academic year definition:

$$(\$5,500 \times 750) \div 900 = \$4,583 \text{ prorated combined subsidized and unsubsidized annual loan limit}$$

$$(\$3,500 \times 750) \div 900 = \$2,917 \text{ prorated subsidized annual loan limit}$$

(As noted earlier in this chapter, the prorated loan limit may also be determined by converting the fraction consisting of the number of clock hours the student completed in the program over the number of clock hours in the program's academic year to a decimal, and then multiplying the decimal by the applicable annual loan limit. Whatever approach a school chooses should be applied consistently, as the fraction method shown above and the decimal method may produce slightly different results.)

The total prorated loan limit is \$4,583, not more than \$2,917 of which may be subsidized. Because the student received more than the prorated maximums, the school reduces each disbursement of the student's Direct Subsidized Loan and Direct Unsubsidized Loan as shown below and returns the excess loan funds to the Department. Note that the school – not the student – is responsible for returning the excess Direct Loan funds in this situation.

Reduced Direct Subsidized Loan Amount	Direct Subsidized Loan Adjusted First Disbursement	Direct Subsidized Loan Adjusted Second Disbursement	Direct Subsidized Loan Funds Returned to Department
\$2,917	\$1,458	\$1,459	\$583
(\$583 reduction from original amount)	(original disbursement reduced by \$292)	(original disbursement reduced by \$291)	

disbursed)			
Reduced Direct Unsubsidized Loan Amount	Direct Unsubsidized Loan Adjusted First Disbursement	Direct Unsubsidized Loan Adjusted Second Disbursement	Direct Unsubsidized Loan Funds Returned to Department
\$1,666	\$833	\$833	\$334
(\$334 reduction from original amount disbursed)	(original disbursement reduced by \$167)	(original disbursement reduced by \$167)	

Volume 8, Chapter 5, Example 9: Re-Proration of a Previously Prorated Loan Limit for a Student Who Graduates Early From a Clock-Hour Program

A dependent student is enrolled in the remaining 500 clock hours of a 1500 clock-hour program that has a defined academic year of 900 clock hours and 26 weeks of instructional time. Because the student is enrolled in a final period of study shorter than an academic year, the school prorates the annual loan limit based on the 500 hours that it expects the student to complete:

$(\$6,500 \times 500) \div 900 = \$3,611$ prorated combined subsidized and unsubsidized annual loan limit

$(\$4,500 \times 500) \div 900 = \$2,500$ prorated subsidized annual loan limit

The total prorated loan limit for the remaining period of study is \$3,611, not more than \$2,500 of which may be subsidized. The student qualifies to receive the maximum annual combined prorated loan limit in the form of a \$2,500 Direct Subsidized Loan and a \$1,111 Direct Unsubsidized Loan. Each loan is paid in two equal disbursements, as shown below.

Original Direct Subsidized Loan Amount	Direct Subsidized Loan First Disbursement	Direct Subsidized Loan Second Disbursement
\$2,500	\$1,250	\$1,250
Original Direct Unsubsidized Loan Amount	Direct Unsubsidized Loan First Disbursement	Direct Unsubsidized Loan Second Disbursement
\$1,111	\$556	\$555

The student successfully meets the requirements for graduation from the program after completing only 400 clock hours. This means that the school must re-prorate the annual loan limit based on the 400 hours that the student actually completed:

$(\$6,500 \times 400) \div 900 = \$2,889$ re-prorated combined subsidized and unsubsidized annual loan limit

$(\$4,500 \times 400) \div 900 = \$2,000$ re-prorated subsidized annual loan limit

The total re-prorated loan limit for the remaining period of study is \$2,889, not more than \$2,000 of which may be subsidized. Since the student originally received Direct Loan amounts in excess of the re-prorated loan limit, the school must adjust the original disbursements and return the difference to the Department, as shown below. The

school – not the student – is responsible for returning the excess funds.

Reduced Direct Subsidized Loan Amount \$2,000 (\$500 reduction from original amount disbursed)	Direct Subsidized Loan Adjusted First Disbursement \$1,000 (original disbursement reduced by \$250)	Direct Subsidized Loan Adjusted Second Disbursement \$1,000 (original disbursement reduced by \$250)	Direct Subsidized Loan Funds Returned to Department \$500
Reduced Direct Unsubsidized Loan Amount \$889 (\$222 reduction from original amount disbursed)	Direct Unsubsidized Loan Adjusted First Disbursement \$445 (original disbursement reduced by \$111)	Direct Unsubsidized Loan Adjusted Second Disbursement \$444 (original disbursement reduced by \$111)	Direct Unsubsidized Loan Funds Returned to Department \$222

Chapter 6

Monitoring Annual Loan Limit Progression

Annual Loan Limit Progression Overview

The academic year (not the award year) is used as the basis for monitoring Direct Loan annual loan limits. That is, a student may receive up to the applicable annual loan limit each academic year (see *Volume 3*, Chapter 1 for guidance on defining the academic year). Note that the loan period for which a Direct Loan is originated does not always correspond to the academic year. Although the loan period is often the same as the academic year, it may also be for a period shorter than the academic year.

For Direct Subsidized Loans and Direct Unsubsidized Loans, a school must use either a Scheduled Academic Year (SAY) or a Borrower-Based Academic Year (BBAY) to determine when a student is eligible for a new annual loan limit. Although there is no fixed annual loan limit for Direct PLUS Loans, Direct PLUS Loans are awarded for the same SAY or BBAY period that is used for Direct Subsidized Loans and Direct Unsubsidized Loans. The type of academic year (SAY or BBAY) that a school may (or must) use to monitor annual loan limit progression depends on a program's academic calendar, as explained in the sections that follow.

Scheduled Academic Year

An SAY corresponds to a traditional academic year calendar that is published in a school's catalog or other materials and is a fixed period of time that generally begins and ends at the same time each year. An SAY may be used by:

- Programs with standard terms and a traditional academic calendar; or
- Programs with SE9W nonstandard terms (see Chapter 3) and a comparable calendar.

The guidance above also applies to subscription-based programs with standard terms or SE9W nonstandard terms. For more information on academic calendars for subscription-based programs, see *Volume 3*, Chapter 1.

Examples of SAYs for a standard term program are fall and spring semesters, or fall, winter, and spring quarters. If a program has SE9W nonstandard terms, an SAY could consist of two or more SE9W nonstandard terms running from fall through spring. For both standard term and SE9W nonstandard term programs, the number of credit hours and weeks of instructional time in the fall through spring SAY period must meet the regulatory requirements for an academic year.

SAY for Programs With Standard Terms Using a Traditional Academic Calendar

As noted previously, an SAY corresponds to a traditional academic year calendar and usually begins and ends at the same time each calendar year (for example, beginning on the first day of the fall semester and ending on the last day of the spring semester). An SAY must meet the *Title IV* requirements for an academic year (as defined in *Volume 3*, Chapter 1). An SAY may include one or more terms that a student does not attend.

Standard terms are semesters, trimesters, or quarters (see *Volume 3*, Chapter 1 for more detail on standard terms). A standard-term program may use an SAY if it has a traditional academic calendar (i.e., has terms that start and end at about the same time each year, such as an academic calendar consisting of the fall and spring semesters or the fall, winter, and spring quarters).

Summer terms are generally not considered to be part of the SAY, but for purposes of monitoring loan limits they may be treated as a "trailer" to the preceding SAY or as a "header" to the following SAY. Your school has the option to establish a policy that designates its summer term as either a trailer or header to the SAY for all students. You can also choose to make different designations for different educational programs, or for different students, as long as you ensure that there is no overlap in academic years. Note that a fixed designation of the summer term as either a trailer or header can limit a student's eligibility. For instance, if you always treat your summer term as a trailer to a preceding fall-spring SAY, a student who receives the full annual loan limit for fall-spring would have no remaining loan eligibility for summer.

If the summer term is split into modules (sometimes called "minisessions"), such as "summer 1" and "summer 2," the modules can be combined and treated as a single trailer or header, or they can be treated separately and assigned to different SAYs. That is, the first module can be treated as a trailer to the preceding fall-spring SAY, and the second module

treated as a header to the following fall-spring SAY.

If a term other than the summer term is divided into modules, the modules **must** be combined with each other or with other terms and treated as a single standard or nonstandard term (see *Volume 3*, Chapter 1 for more information on combining modules). If modules (summer or otherwise) are grouped together and treated as a single term, the COA cannot include costs for a module for which the student is not expected to be enrolled. A student doesn’t have to be enrolled in each module but must be able to enroll at least half time in the combined term.

The annual loan limit applies to the SAY, plus the summer trailer or header. For example, if the SAY consists of fall and spring semesters followed by a summer trailer, a student may receive a full annual loan limit for the fall-spring-summer period. Once the calendar period associated with all terms in the SAY and the summer header or trailer (if any) has elapsed, a student regains eligibility for a new annual loan limit.

SAY for Programs With SE9W Nonstandard Terms Using an Academic Calendar Comparable to a Traditional Academic Calendar

A program with SE9W nonstandard terms may use an SAY if **all** the following requirements are met:

- It has a fixed academic calendar comparable to a traditional academic calendar (i.e., terms that start and end at about the same time each year, with the academic year comprised of two or more SE9W nonstandard terms in the fall through spring);
- All the nonstandard terms, including any summer term, are SE9W; and
- The number of credit hours and weeks of instructional time in the comparable fall-spring academic calendar meet the regulatory requirements for an academic year.

Volume 8, Chapter 6, Example 1: SE9W SAY

A school has programs with an academic calendar using semester hours with three 12-week quarters, offered over the fall through spring (comparable to a traditional academic year calendar) and a 10-week term offered in the summer. The school defines the academic year for these programs as 36 weeks of instructional time and 24 semester hours. Because the terms are quarters, but academic progress is measured in semester hours, the terms are considered nonstandard.

Because these terms are SE9W nonstandard terms offered in a fixed schedule with an academic calendar comparable to a traditional calendar, the school may use an SAY (with the summer term treated as a trailer or header) or BBAY 1 consisting of any three consecutive terms (see below) for these programs.

Borrower-Based Academic Year

A BBAY does not have fixed beginning and ending dates. Instead, it “floats” with a student’s (or a group of students’) attendance and progression in a program of study. There are three types of BBAY:

- **BBAY 1**, for credit-hour programs using an SAY with standard terms or SE9W nonstandard terms (including subscription-based programs, as described in *Volume 3*, Chapter 1).
- **BBAY 2**, for credit-hour programs **not** using an SAY, with standard terms or SE9W nonstandard terms (including subscription-based programs, as described in *Volume 3*, Chapter 1).
- **BBAY 3**, for clock-hour programs, non-term programs, programs with non-SE9W nonstandard terms (see Chapter 4 of this volume), or programs with standard and nonstandard terms not described above.

If a program is offered in an SAY calendar, you have the option of using either an SAY or BBAY 1 to monitor the annual loan limits for students in that program. You must use a BBAY to monitor the annual loan limits for any academic program that does not meet the definition of a program allowed to use an SAY. However, there are significant differences between

the different types of BBAY. We describe the differences between BBAY 1, BBAY 2, and BBAY 3 in the sections that follow.

BBAY 1 for Credit-Hour Programs With an SAY

If a program is offered in an SAY, you have the option of using a BBAY 1 as an alternative to the SAY for monitoring annual loan limit progression. As explained earlier, a BBAY is not a fixed period that begins and ends at the same time each year. The beginning and ending dates depend on the individual student’s enrollment.

For programs with an SAY, a BBAY 1 must include the same number of terms as the SAY that would otherwise be used (not counting any summer trailer or header). For example, if the SAY includes three quarters (fall, winter, spring), a BBAY 1 would consist of any three consecutive terms. A BBAY 1 may include terms the student does not attend if the student could have enrolled **at least half time** in those terms, but (unlike an SAY) it must begin with a term in which the student is enrolled (even though the student may be enrolled less than half time for the first term and not eligible for a loan for that term). Also, any modules (summer or otherwise) that run consecutively within a term **must** be combined and treated as a single term. The COA cannot include costs for a module for which the student is not expected to be enrolled. A student doesn’t have to be enrolled in each module but must be able to enroll at least half time in the combined term.

Like an SAY, a BBAY 1 must meet the minimum *Title IV* requirements for an academic year. However, a BBAY 1 that includes a summer term may include fewer than 30 weeks of instructional time or fewer credit hours than the minimum number required for an SAY. This is because a summer term may be shorter than a standard term in an SAY but is recognized as academically equivalent to a standard term when used as one of the terms in a BBAY 1. This exception applies **only** to a BBAY 1 used as an alternative for a program with an SAY.

You may use a BBAY 1 for all students, only for students in certain programs, or on a student-by-student basis. For example, you could use a BBAY 1 for students enrolled in a program that begins in a term other than the first term of the SAY. You can even alternate BBAY 1 and SAY for a student, provided the academic years don’t overlap. This treatment may allow a student to receive another loan sooner than would be allowed under an SAY standard.

As with an SAY, the annual loan limit applies to the BBAY 1. Once the calendar period associated with all terms in the BBAY 1 has elapsed, a student regains eligibility for a new annual loan limit.

Alternating an SAY With BBAY 1

Alternating an SAY with BBAY 1 may allow a student to receive another loan sooner than would be allowed with an SAY. For instance, if you normally use an SAY consisting of fall and spring semesters with a summer trailer, a student who received the maximum annual loan limit for fall-spring could not receive another loan until the start of a new SAY in the fall. If the student enrolls for summer and wants a loan, you could choose to switch the student to a BBAY 1 consisting of the summer and fall terms. The student could then receive a loan for the summer term, which would be the start of a new academic year. A school that provides flexibility in academic year standards for purposes of monitoring annual loan limits must have a written policy that explains how it applies this flexibility when determining loan eligibility.

Examples 2 through 5 illustrate the optional use of BBAY 1 for a program that is offered in an SAY. Note that in each example the first BBAY 1 is the same as the SAY.

Volume 8, Chapter 6, Example 2: BBAY 1 Where the SAY Contains Two Semesters

Year 1: SAY or BBAY 1	Year 2: BBAY 1	Year 3: BBAY 1
Fall + Spring	Summer + Fall	Spring + Summer

In Example 2, the initial fall and spring terms could be considered either an SAY or BBAY 1. If the student attends the summer session at the school, the school can choose to treat the summer term and the next fall as a BBAY 1 for the student. In that case, the following spring and summer would also constitute a BBAY 1. The maximum loan limit for an academic year applies to each BBAY 1. If these were the first three years of study for a dependent

student who progressed a grade level each academic year, the student would be eligible for up to the applicable annual loan limit during each BBAY 1.

Volume 8, Chapter 6, Example 3: BBAY 1 Where the SAY Contains Two Semesters (Student Is Not Enrolled in the Second Term of the BBAY)

Year 1: SAY or BBAY 1	Year 2: BBAY 1	Year 3: BBAY 1
Fall + Spring	Summer + Fall (not enrolled in Fall)	Spring + Summer

A student doesn’t have to attend all of the terms in a BBAY 1, but the BBAY 1 cannot begin with a term that the student doesn’t attend. In Example 3, the student is not enrolled in the second term (fall) of year 2.

Volume 8, Chapter 6, Example 4: BBAY 1 Where the SAY Contains Two Semesters (Student Is Not Enrolled in a Term That Would Otherwise Be the First Term in the BBAY)

Year 1: SAY or BBAY 1	Year 2: BBAY 1		Year 3: BBAY 1
Fall + Spring	Summer + Fall	Spring (not enrolled)	Summer + Fall

In Example 4, if the student does not attend a term that otherwise would have been the beginning of a BBAY 1 (in this case, spring), then the student’s next BBAY 1 cannot begin until the next term that the student attends (in this case, summer). As with Examples 2 and 3, the annual loan limit applies to each BBAY 1.

Volume 8, Chapter 6, Example 5: BBAY 1 Where the SAY Contains Three Quarters

Year 1: SAY or BBAY 1	Year 2: BBAY 1
Fall + Winter + Spring	Summer + Fall + Winter

The same concepts apply to quarter-term programs. For instance, in Example 5, the fall, winter, and spring terms constitute the school’s SAY. If the student attends the summer session at the school, it can be the first term of a BBAY 1 that also includes the following fall and winter terms.

BBAY 2 for Standard-Term Programs and SE9W Nonstandard Term Programs Without an SAY

If a program with standard terms or SE9W nonstandard terms is not offered in a traditional academic year calendar (SAY), BBAY 2 **must** be used. If the program uses semesters or trimesters, a BBAY 2 consists of any two consecutive terms. If the program uses quarters, a BBAY 2 consists of any three consecutive terms. If the program uses SE9W nonstandard terms, a BBAY 2 consists of the number of consecutive terms that coincide with the weeks of instructional time in the program’s academic year.

As with the optional BBAY 1 that may be used for programs with an SAY, BBAY 2 may include terms that a student does not attend (as long as the student could have enrolled at least half time in those terms), but it must begin with a term in which the student is enrolled (even if the student is enrolled less than half time during the first term and therefore ineligible to receive a Direct Loan for that term). Unlike the optional BBAY 1 for programs offered in an SAY, there is no exception to the minimum academic year requirements for a BBAY 2 that includes a summer term. This means that the BBAY 2 for standard-term programs that are not offered in a traditional academic calendar, or for SE9W nonstandard term programs not offered in a comparable academic calendar, must always include enough terms to meet the minimum *Title IV* academic year requirements for weeks of instructional time.

As with BBAY 1, any modules (summer or otherwise) that run consecutively within a term **must** be combined and treated as a single term. The COA cannot include costs for a module for which the student is not expected to be enrolled. A student doesn’t have to be enrolled in each module but must be able to enroll at least half time in the combined term.

The annual loan limit applies to the BBAY 2. Once the calendar period associated with all of the terms in the BBAY 2 has elapsed, a student regains eligibility for a new annual loan limit.

Volume 8, Chapter 6, Example 6: BBAY 2

First BBAY 2	Second BBAY 2	Third BBAY 2
Semester 1 + Semester 2	Semester 3 + Semester 4 (not enrolled in Semester 4)	Semester 5 + Semester 6

A school has a program that measures academic progress in credit hours and uses 15-week semesters, but it is not offered in a traditional academic year calendar (SAY). New students begin the program each month, and a 15-week semester begins at that time for that cohort of students. The school must use BBAY 2 to monitor annual loan limits. A BBAY 2 consists of any two consecutive semesters, beginning with a semester in which a student is enrolled. In Example 6, the student is not enrolled in the second semester (Semester 4) of the second BBAY 2.

BBAY 3 for Clock-Hour, Non-Term Credit-Hour, and Non-SE9W Nonstandard-Term Programs

All clock-hour programs, non-term credit-hour programs, and non-SE9W nonstandard-term programs must use a BBAY 3 that meets the minimum requirements for an academic year. That is, the BBAY 3 must contain at least 30 weeks (or, for clock-hour programs, 26 weeks) of instructional time and:

- For undergraduate programs, a minimum of 24 semester or trimester hours, 36 quarter hours, or 900 clock hours; or
- For graduate programs, at least the number of hours a student would complete under the school’s full-time standard in weeks of the *Title IV* academic year, which must be a minimum of 30 weeks of instructional time for credit-hour programs, or at least 26 weeks of instructional time for clock-hour programs.

The BBAY 3 begins when a student enrolls and does not end until **the later of** the date the student successfully completes the hours in the academic year or the number of weeks of instructional time in the academic year. Because a student must successfully complete the minimum number of hours or weeks of instructional time in an academic year (whichever comes later) before a new BBAY 3 begins, a student’s enrollment status may affect how soon the student

regains eligibility for a new annual loan limit. For example, a student who is attending less than full time will take longer to complete a BBAY 3 than a full-time student. (In contrast, an SAY, BBAY 1, or BBAY 2 ends when the calendar period associated with the terms in the SAY or BBAY has elapsed, regardless of how many credit hours or weeks of instruction the student completed during the SAY or BBAY.)

Individual Academic Progress in BBAY 3

In many clock-hour, non-term, and nonstandard-term programs, students are allowed to progress at an individual pace. For example, consider a school that defines its academic year as 900 clock hours and 26 weeks of instructional time and offers a 900 clock-hour program that most students complete in 26 weeks. However, one student might complete 900 clock hours in 22 weeks, and another in 30 weeks.

As we explained in Chapter 5 of this volume, the annual loan limit must be prorated (reduced) if an undergraduate student is enrolled in a program that is less than a full academic year in length or is in a remaining period of study that is shorter than a full academic year. However, in the scenario described above, you do not have to prorate the loan limit for the occasional student who completes the program in fewer than 26 weeks. This policy applies only to programs that are exactly one academic year in length. If a program is longer than an academic year, proration may be required for a loan covering the remaining portion of the program if a student completes more than the minimum number of hours during the first 26 weeks of instructional time (see Example 7 in Chapter 5 of this volume).

BBAY 3 for Programs With Both Standard and Nonstandard Terms

BBAY 3 must also be used if a program has both standard terms and nonstandard terms and does not qualify to use an SAY. For example, if you offer a program with a 4-week intersession between a 15-week fall semester and a 15-week spring semester, and you do not combine the intersession with one of the standard terms but instead treat it as a standalone nonstandard term, you must use BBAY 3 to monitor annual loan limit progression. In this circumstance you cannot simply ignore the intersession and consider the program to be offered only in standard terms. In contrast, if you combine the intersession with one of the semesters, you could use an SAY consisting of the fall and spring semesters.

Volume 8, Chapter 6, Example 7: BBAY 3 for a Clock-Hour Program

A school has an 1,800 clock-hour program with 52 weeks of instructional time and defines its academic year as 900 clock hours and 26 weeks of instructional time. The first BBAY 3 begins with a student’s initial enrollment date and ends when the student has successfully completed the first 900 clock hours and 26 weeks of instructional time in the program, whichever comes later.

The second BBAY 3 would be the period of time it takes the student to successfully complete the final 900 hours and 26 weeks of instructional time in the program. A student who completes the first 900 hours in less than 26 weeks must still complete 26 weeks of instructional time before the second BBAY 3 begins. Similarly, a student who has completed fewer than 900 clock hours after 26 weeks of instructional time must successfully complete 900 hours before the second BBAY 3 begins.

During the first BBAY 3, the student may receive up to the full annual loan limit for a first-year undergraduate. The student becomes eligible for a new annual loan limit (at the second-year undergraduate level) when the second BBAY 3 begins.

The principles described in this example for a clock-hour program also apply to non-term credit-hour programs or non-SE9W nonstandard term credit-hour programs. For example, if a school offers a non-term 48 semester hour, 60 weeks of instructional time program with a defined academic year of 24 semester hours and 30 weeks of instructional time, the second BBAY 3 would not begin until a student has successfully completed the first 24 semester hours and 30 weeks of instructional time.

Similarly, in a 72 quarter-hour program with 60 weeks of instructional time offered in a series of non-SE9W nonstandard terms, with a defined academic year of 36 quarter hours and 30 weeks of instructional time, the second BBAY 3 would not begin until a student has successfully completed the first 36 quarter hours and 30 weeks of instructional time, whichever comes later, regardless of the number of terms that have elapsed. For

instance, a student who successfully completes only 33 quarter hours in the first 30 weeks of instructional time must successfully complete an additional three quarter hours before the second BBAY 3 begins and the student becomes eligible for a new annual loan limit at the second-year undergraduate level.

SAY and BBAY Summary

For reference, the table below compares the main features of SAY, BBAY 1, BBAY 2, and BBAY 3 (as discussed in more detail earlier in the chapter) in a side-by-side format.

Volume 8, Chapter 6: SAY and BBAY Comparison Table

SAY	BBAY 1	BBAY 2	BBAY 3
Used for credit-hour programs with standard terms or SE9W nonstandard terms offered in a traditional academic calendar.	Alternative to SAY for credit-hour programs with standard terms or SE9W nonstandard terms that are also offered in an SAY.	Must be used for credit-hour programs with standard terms or SE9W nonstandard terms that are not offered in an SAY.	Must be used for clock-hour programs, non-term programs, programs with non-SE9W nonstandard terms, and programs that mix standard and nonstandard terms and do not qualify to use an SAY.
<p>SAY uses:</p> <ul style="list-style-type: none"> Traditional academic calendar with at least 2 semesters or trimesters or 3 quarters in fall through spring, or Comparable academic calendar with SE9W nonstandard terms, if all terms (including summer) are SE9W, and if number of hours or weeks in comparable fall-spring calendar meets regulatory academic year minimums. 	N/A	N/A	N/A
Generally begins and ends at same time each year.	<ul style="list-style-type: none"> Doesn't begin and end at same time each year; "floats" with student's enrollment. May be used as alternative to SAY for all students, certain students, or certain programs. May alternate SAY and BBAY 1 (but 	Doesn't begin and end at same time each year; "floats" with student's enrollment.	<ul style="list-style-type: none"> Doesn't begin and end at same time each year. Begins when student enrolls at least half-time and "floats" with student's enrollment.

	academic years may not overlap).		
Student not required to be enrolled in first term.	<ul style="list-style-type: none"> • Student must be enrolled in first term (may be less than half time). • May include terms student does not attend (except first term) if student could have enrolled at least half time. 	<ul style="list-style-type: none"> • Student must be enrolled in first term (may be less than half time). • May include terms student does not attend (except first term) if student could have enrolled at least half time. 	N/A
Must at least meet program's <i>Title IV</i> academic year in weeks and hours.	<ul style="list-style-type: none"> • Length of BBAY 1 must equal number of terms in program's SAY, excluding summer trailer and header. • BBAY 1 that includes summer term may contain fewer than regulatory minimum number of hours and weeks in academic year. 	<p>Must meet at least minimum requirements for hours and weeks in program's <i>Title IV</i> academic year, and must consist of:</p> <ul style="list-style-type: none"> • At least 2 consecutive semesters or trimesters; • At least 3 consecutive quarters; or • At least number of consecutive SE9W nonstandard terms covered by program's <i>Title IV</i> academic year. 	Must meet at least minimum requirements for hours and weeks in program's <i>Title IV</i> academic year.
<p>Summer term may be "trailer" or "header":</p> <ul style="list-style-type: none"> • By strict policy; • By program; or • By student on a case-by-case basis. 	N/A	N/A	N/A
Total loan amount received within SAY plus summer trailer or header may not exceed annual loan limit.	Total loan amount received within BBAY 1 may not exceed annual loan limit.	Total loan amount received within BBAY 2 may not exceed annual loan limit.	Total loan amount received within BBAY 3 may not exceed annual loan limit.
Student becomes eligible for	Student becomes eligible	Student becomes eligible	Student becomes eligible for

new annual loan limit after SAY (plus summer trailer or header) calendar period ends.	for new annual loan limit after BBAY 1 calendar period ends.	for new annual loan limit after BBAY 2 calendar period ends.	new annual loan limit only after successfully completing clock or credit hours AND weeks of instructional time in BBAY 3.
<p>After original loan, student may receive additional loans during same SAY if:</p> <ul style="list-style-type: none"> • Received less than annual loan amount and has remaining eligibility; • Progresses to grade level with higher annual loan limit; or • Changes from dependent to independent. 	<p>After original loan, student may receive additional loans during same BBAY 1 if:</p> <ul style="list-style-type: none"> • Received less than annual loan amount and has remaining eligibility; • Progresses to grade level with higher annual loan limit; or • Changes from dependent to independent. 	<p>After original loan, student may receive additional loans during same BBAY 2 if:</p> <ul style="list-style-type: none"> • Received less than annual loan amount and has remaining eligibility; • Progresses to grade level with higher annual loan limit; or • Changes from dependent to independent. 	<p>After original loan, student may receive additional loans within BBAY 3 only if:</p> <ul style="list-style-type: none"> • Received less than annual loan amount and has remaining eligibility; or • Changes from dependent to independent. <p>Student may not become eligible for next grade level annual loan limits until after completion of BBAY 3.</p>
<ul style="list-style-type: none"> • Summer term modules may be combined and treated as single trailer or header, or assigned to different SAYs (one as trailer, the other as header). • Modules in terms other than summer must be combined with each other or with other terms and treated as single standard or SE9W nonstandard term (affects all <i>Title IV</i> programs). • Student need not enroll in each module, but must have been able to enroll at least half time in combined term. 	<ul style="list-style-type: none"> • Modules (summer or otherwise) must be combined with each other or with other terms and treated as single standard or nonstandard term (affects all <i>Title IV</i> programs). • Student need not enroll in each module, but must have been able to enroll at least half time in combined term. 	<ul style="list-style-type: none"> • Modules (summer or otherwise) must be combined with each other or with other terms and treated as single standard or nonstandard term (affects all <i>Title IV</i> programs). • Student need not enroll in each module, but must have been able to enroll at least half time in combined term. 	N/A

Annual Loan Limit Increase Based on Grade Level Progression or Dependency Status Change

The annual loan limit for Direct Subsidized and Unsubsidized Loans increases as a student progresses in grade level. Generally, a student's grade level for loan limit purposes is set according to the school's academic standards.

While the law defines minimum coursework for an academic year, it doesn't define how much coursework a student must complete to progress from one grade level to another. Unless a student's program of study or a school's academic standards clearly specify when this grade-level progression takes place, a reasonable approach would be to base grade levels on the number of credits required for the program, divided by the number of academic years it takes a typical

student to earn that number of credits. For instance, if your school has a baccalaureate program that requires 120 semester hours of work and is typically completed in four academic years, then you might use a standard of 30 hours completed at each grade level.

Standard Term and SE9W Nonstandard Term Programs: Grade Level Progression Within the Same Academic Year

In standard term programs or SE9W nonstandard term programs, a student who has already received the full annual limit within an academic year can receive additional loan funds if the student progresses to a grade level with a higher annual loan limit during that same academic year. (See *Volume 3*, Chapter 1 for a discussion of academic year requirements.)

Increasing the Loan Amount When a Student’s Grade Level Changes During an Academic Year

There are two options for awarding an additional loan amount when a student progresses to a grade level with a higher annual loan limit during an academic year:

1. Originate a new loan at the new grade level for the difference between the new loan limit and the amount of the first loan. The loan period for the new loan must correspond to the term(s) during which the student qualifies for the higher loan limit. You could also choose to cancel any pending disbursements of the first loan and originate a new loan for an amount equal to the canceled disbursements of the first loan plus the additional amount for which the student is eligible due to the grade level change.
2. Adjust the amount of the current loan. Change the grade level in the loan record and increase the amount of the existing loan to the new amount.

With either option, the student’s remaining loan eligibility must be calculated using only the COA and OFA for the term(s) during which the student qualifies for the higher loan limit.

As a reminder, a student can progress to a higher grade level during an academic year only in a program with standard terms or SE9W nonstandard terms.

Volume 8, Chapter 6, Example 8: Grade-Level Progression Within the Same SAY

A dependent second-year undergraduate student qualifies for the maximum annual combined subsidized and unsubsidized annual loan limit of \$6,500, not more than \$4,500 of which may be subsidized. For purposes of this example, assume that the student is eligible to receive the maximum \$4,500 in Direct Subsidized Loan funds and the remaining \$2,000 in Direct Unsubsidized Loan funds. The student receives a first disbursement of \$2,250 in Direct Subsidized Loan funds and \$1,000 in Direct Unsubsidized Loan funds at the beginning of the fall semester of a fall-spring SAY.

Based on the coursework completed during the fall semester, the student progresses to third-year academic status at the beginning of the spring semester. The student now qualifies for the \$7,500 combined subsidized and unsubsidized annual limit (maximum \$5,500 subsidized) that applies to third-year and beyond dependent undergraduates. If otherwise eligible, for the spring term the student could receive up to the difference between the amount already received in the fall and the new annual limit in the spring term. If the student again qualifies for the maximum subsidized loan amount, eligibility for the spring term is as follows:

$$\$5,500 - \$2,250 \text{ subsidized received in the fall} = \$3,250 \text{ subsidized eligibility for spring; and}$$
$$\$2,000 - \$1,000 \text{ unsubsidized received in the fall} = \$1,000 \text{ additional unsubsidized eligibility for spring.}$$

However, only the COA and OFA associated with the spring term can be used in determining the student’s eligibility for the additional loan amount in that term. The COA and OFA for the fall term cannot be considered. The school may either originate a new spring-only subsidized loan for the additional subsidized loan eligibility in the spring term (note that the grade level progression does not increase the student’s additional unsubsidized eligibility) or may increase the amount of the original fall-spring subsidized loan and make the appropriate adjustment to the second disbursement of that loan.

Clock-Hour, Non-Term Credit Hour, and Non-SE9W Nonstandard Term Programs: Grade Level Progression Occurs Only at the Beginning of a New BBAY 3

In contrast to standard term and SE9W nonstandard term programs, progression to a higher grade level and the beginning of a new BBAY 3 for loan limit purposes always happens at the same time for a student in a clock-hour program, non-term program, or non-SE9W nonstandard-term program. To advance to the next grade level for annual loan limit purposes, a student must successfully complete both the weeks and hours in the program's *Title IV* academic year. That is, the student must complete at least 30 weeks of instructional time (or, for clock-hour programs, at least 26 weeks) and the number of credit or clock hours in the academic year, whichever comes later. For instance, a first-year student in a two-year non-term program with a defined academic year of 36 quarter hours and 30 weeks of instructional time who earns 36 quarter credits over 24 weeks of instructional time cannot progress to the next grade level (and begin a new BBAY 3 for annual loan limit purposes) until another six weeks of instructional time are completed.

New Annual Loan Limit at the Same Grade Level

The beginning of a new academic year for annual loan limit purposes does not always coincide with a student's progression to a higher grade level. For both standard-term programs and SE9W nonstandard term programs, if a student is enrolled at the same grade level after a full academic year has elapsed, the student may be eligible for a new annual maximum amount at the same grade level, provided that the student maintains satisfactory academic progress. For example, a student in a standard term or SE9W nonstandard term program who completes only 12 semester hours during the first SAY, BBAY 1, or BBAY 2 could receive another loan when the calendar period associated with that academic year has elapsed, but the borrower would still be classified as a first-year undergraduate at the start of the second academic year.

If a student is maintaining satisfactory academic progress, a school may not have a general policy that limits the number of times the student can receive the maximum annual loan limit at one grade level. A school may refuse to originate a loan or may originate a loan for an amount less than the borrower's maximum eligibility only on a case-by-case basis (see "Refusing to Originate a Loan or Originating for Less Than Maximum Eligibility" in Chapter 1 of this volume).

Remedial Work and Grade Level Progression

Remedial coursework can be counted towards a student's grade level progression, but only if the school's written and officially approved academic grade level progression policy specifies that remedial coursework can be counted for this purpose. For instance, a school might have a policy stating that a student must complete 30 semester hours to progress to a second-year grade level and specifying that up to 10 of those hours may be in the form of remedial coursework.

Increasing the Loan Amount When a Student's Dependency Status Changes During the Academic Year

For any type of educational program (whether term-based or non-term, credit-hour or clock-hour), a dependent student who has already borrowed up to the annual loan limit within an academic year may be eligible to receive additional loan funds if their dependency status changes to independent during that same academic year.

Chapter 7

Annual Loan Limits for Students Who Transfer or Change Programs

Overview

The Direct Loan annual loan limits apply to an academic year. If a student who received a Direct Loan transfers from one school to another school, or changes to a different program at the same school, and there is an overlap between the academic year associated with the loan received at the first school or for the first program and the academic year for the new school or program, this overlap may affect the amount that the student is initially eligible to borrow at the new school or for the new program.

An overlap in academic years exists if the academic year at the new school (or the academic year for the new program at the same school) begins before the calendar end date of the academic year at the prior school or program. In the case of a transfer student from another school, you may obtain documentation from the prior school of the specific beginning and ending dates for the prior academic year, or look for the academic year dates of Direct Loans originated by the prior school on the “award detail information page” in the COD Web interface.

Transfer Into a Standard Term or SE9W Nonstandard Term Program (SAY, BBAY 1, or BBAY 2)

Transfers Between Schools

Example 1 below illustrates the determination of the annual loan limit for a student who transfers from one school into a standard-term program at another school with an overlap in academic years.

Volume 8, Chapter 7, Example 1: Transfer Into a Standard-Term Program

A student receives a \$2,000 Direct Subsidized Loan at School A for a loan period from May 1 to August 31. School A reports the academic year for this loan as May 1 to November 27. The student, a dependent undergraduate, transfers to a program at School B in September and is admitted at grade level 2. The student requests a loan for the fall and spring semesters (September-May). The program at School B uses an SAY consisting of fall and spring semesters, followed by a summer trailer term.

Because the academic year at School B begins before the end of the academic year at School A, the student may initially receive only up to a maximum of \$4,500 for the fall semester at School B, not more than \$2,500 of which may be subsidized. This amount represents the difference between the annual loan limit of \$6,500 (maximum \$4,500 subsidized), and the amount received at School A (\$2,000 subsidized) for the overlapping academic year period.

The initial loan period at School B corresponds with the fall term. If the student receives the maximum of \$4,500 for the fall semester, at the start of the spring semester in January the student may borrow up to an additional \$2,000 (the difference between the second-year dependent undergraduate annual loan limit and the amount already borrowed for the fall-spring academic year at School B). If the student received the maximum \$2,500 in subsidized loan funds for the fall term, the additional \$2,000 would be limited to unsubsidized loan funds.

As an alternative, School B could choose to change the student from an SAY schedule to a BBAY 1 schedule beginning with the spring semester. The student would then be eligible to borrow up to the full annual loan limit for a spring-summer BBAY 1. Although this might appear to result in an overlap between the SAY and BBAY 1 at School B, in this limited transfer student circumstance the fall semester at School B can be considered the last term of the academic year that began at School A.

Transfers Between Programs at the Same School

If a student transfers to a different program at the same school at the beginning of a new term within the same academic

year, the student's loan eligibility for the remaining term(s) of the academic year is equal to the difference between the applicable loan limit for the new program and the loan amount the student received for the prior program within the same academic year.

Transfer Into a Clock-Hour, Non-Term, or Non-SE9W Nonstandard Term Program (BBAY 3): Abbreviated Loan Periods

Transfers Between Schools

If a student transfers into a clock-hour, non-term, or non-SE9W nonstandard term program at a new school and the academic year associated with the last loan the student received at the prior school overlaps the initial academic year for the program at the new school, the new school may originate an initial loan for a loan period that covers the remaining portion of the academic year that began at the prior school. The loan period for this initial loan is called an "abbreviated loan period" because it is shorter than the loan period that would otherwise be required under the normal minimum loan period requirements. As explained earlier in this volume, under normal rules the minimum loan period for a clock-hour, non-term, or non-SE9W nonstandard term program is the lesser of:

- The academic year; or
- The length of the program or the remaining portion of the program.

The new school may originate a loan for an abbreviated loan period regardless of whether the new school accepts transfer hours from the prior school. The abbreviated loan period begins with the date of the student's enrollment at the new school and ends on the **calendar period ending date** of the academic year that began at the prior school, without regard to the number of credit or clock hours or weeks of instructional time that the student has completed during the abbreviated loan period. After the abbreviated loan period is completed, the student progresses to a new loan period and academic year (BBAY 3) and a new annual loan limit.

If the new school accepts credits or hours from the prior school, this may give the student advance standing that reduces the length of time it will take to complete the program at the new school. If the remaining portion of the program at the new school following the completion of the abbreviated loan period is shorter than an academic year, the annual loan limit for the next loan must be prorated.

Generally, the loan amount for the abbreviated loan period at the new school may not exceed the remaining balance of the full annual loan limit applicable to the student at the new school, minus the loan amount the student received at the first school for the same academic year. However, there is an exception to this general rule if:

- The student is transferring into a program at the new school that is less than a full academic year in length; or
- The student is transferring into a remaining portion of a program (of any length) that is less than an academic year in length.

In the two circumstances described above, the total loan amount that the student may receive for the program (or remaining portion of the program) at the new school (for the abbreviated loan period and any subsequent loan period combined) may not exceed the applicable prorated annual loan limit for the program or remaining portion of the program.

Rules for Abbreviated Loan Periods:

- The abbreviated loan period begins when the student starts at the new school.
- The abbreviated loan period ends when the academic year would have ended at the prior school, without regard to how many hours or weeks of instructional time the student has completed at the new school during the abbreviated loan period.
- Generally, the maximum loan amount that the student can receive for the abbreviated loan period is the difference between the full annual loan limit applicable to the student at the new school and the loan amount that was disbursed at the prior school during the overlapping academic year (see the preceding discussion for an exception to this general rule).
- The first disbursement of the loan for the abbreviated loan period at the new school is made at the beginning of the abbreviated loan period. Unless the school qualifies based on its cohort default rate for the exemption from the multiple disbursement requirement (see *Volume 3*, Chapter 1), the loan must be disbursed in at least two

installments, with the second disbursement made at the calendar midpoint of the abbreviated loan period regardless of how many clock or credit hours or weeks of instructional time have been completed. The normal payment period disbursement rules do not apply in this situation.

- The next loan period and a new BBAY 3 at the new school begins the day after the last day of the abbreviated loan period.
- Once the new loan period and BBAY 3 begin, all normal rules for the timing of disbursements and annual loan limit progression apply.

Exceptions to the Minimum Loan Period Rules (Abbreviated Loan Periods)

[34 CFR 685.301\(a\)\(10\)\(ii\), \(iii\)](#)

Examples 2 and 3 illustrate the principles described above. Although this is not shown in the abbreviated loan period examples, in some cases a student who transfers into a program after having received a loan at another school for an overlapping academic year may be eligible to receive a higher total loan amount for the program at the new school than a non-transfer student would be eligible to receive for that same program. In other cases, a transfer student may be eligible to receive a lower total loan amount for the same program than a non-transfer student. The total loan amount that a transfer student may receive depends on factors such as the length of the program at the second school, the program's COA, and the loan amount the transfer student received at the prior school for the overlapping academic year.

Volume 8, Chapter 7, Example 2: Transfer Into a Clock-Hour Program One Academic Year or Greater in Length

A dependent first-year undergraduate student receives the first disbursement (\$2,750) of a Direct Unsubsidized Loan at School A. The loan period and academic year dates are April 1 to December 31. For purposes of this example, assume that the student has no financial need for a Direct Subsidized Loan and receives only Direct Unsubsidized Loans. The student transfers from School A to an 1,800 clock-hour program at School B and begins attendance on June 25. The student is still classified as a dependent first-year undergraduate. The program at School B has an academic year of 26 weeks of instructional time and 900 clock hours.

The student's first loan period at School B will be an abbreviated loan period from June 25 (the beginning date of attendance at School B) through December 31 (the date the academic year would have ended at School A). For the initial abbreviated loan period, School B may originate a loan for up to the difference between the student's annual loan limit (\$5,500) and the loan already received at School A for the overlapping loan period (\$2,750). The loan amount available to the student during the abbreviated loan period is \$2,750.

On January 1, the day after the last day of the abbreviated loan period, a new BBAY 3 begins, and the student becomes eligible for a new annual loan limit. The loan period for the new loan the student receives following the completion of the abbreviated loan period will correspond to the lesser of the academic year or the remainder of the program at School B. If there is less than a full academic year of the program remaining after the abbreviated loan period has ended, the loan limit for the new loan must be prorated.

Volume 8, Chapter 7, Example 3: Transfer Into a Clock-Hour Program Shorter Than an Academic Year

A dependent first-year undergraduate student receives the first disbursements of a Direct Subsidized Loan (\$1,750) and Direct Unsubsidized Loan (\$1,000) at School A. The loan period and academic year dates are January 26 to July 31.

The student leaves School A and transfers into a 300 clock-hour/12-week program at School B on June 15. School B defines its *Title IV* academic year as containing 900 clock hours and 26 weeks of instructional time. The combined subsidized and unsubsidized prorated annual loan limit for the 300-hour program at School B is \$1,815, not more than \$1,155 of which may be subsidized (see Chapter 5 of this volume for guidance on calculating prorated annual loan limits).

For the abbreviated loan period at School B (June 15 to July 31), a transfer student would normally be eligible to receive the difference between the full first-year annual loan limit and the loan amount received at School A (that is, an additional \$1,750 subsidized and \$1,000 unsubsidized). In this example, however, the student may not receive those amounts, because they would exceed the prorated annual loan limits for the 300 clock-hour program. Therefore, the maximum loan amount the student may receive for the program at School B (for the abbreviated loan period and any subsequent loan period combined) is a total of \$1,815, not more than \$1,155 of which may be subsidized (the prorated loan limits for the program). If the student receives the maximum prorated loan limit for the program during the abbreviated loan period, there is no remaining loan eligibility for the program following the completion of the abbreviated loan period.

Transfers Between Programs at the Same School

Unless a student is considered to remain in the same loan period and payment period (see below), when a student transfers within the same academic year from one program to a different program at the same school, and the new program is a clock-hour, non-term, or non-SE9W nonstandard term program, the school may originate an initial loan for the new program with an abbreviated loan period that ends on the calendar period ending date of the academic year associated with the prior program. The same abbreviated loan period rules that apply when a student transfers from one school to another school (see above) also apply when a student transfers within the same academic year to a new program at the same school.

If certain requirements are met, when a student who has received a Direct Loan for one program transfers to a different program at the same school, you have the option of considering the student to remain in the same payment period and loan period. Otherwise, you must place the student in a new payment period and originate a new loan with a new loan period.

Same Payment Period and Same Loan Period

At your option, you can consider a student who transfers from one program to another program at the same school to be in the same payment period and loan period if all the following conditions apply:

- The student is continuously enrolled at the school;
- The coursework in the payment period the student is transferring out of is substantially similar to the coursework the student will be taking when they first transfer to the new program;
- The student's current payment period and the payment periods that would otherwise apply in the new program are substantially equal in length in weeks of instructional time and credit or clock hours;
- There are few or no changes in school charges associated with the transfer to the new program; and
- The credits or clock hours from the payment period the student is transferring out of are accepted toward the new program.

If you choose to keep the student in the same payment period, the loan period for the loan the student received for the first program would also remain the same. However, you must consider any changes as to when the student is expected to complete the hours and weeks of instructional time of the academic year and make any necessary adjustments to the

ending date of the loan period or the dates of the second and any subsequent disbursements.

New Payment Period and New Loan Period

If the requirements described above are not met, or if they are met but you choose to place a student who transfers from one program to a different program in a new payment period, you must perform a Return of *Title IV* (R2T4) funds calculation for the student’s withdrawal from the payment period in the first program. This is assuming that the student did not complete that payment period without starting a new one before transferring into the new program if the R2T4 calculation is done on a payment period basis. Likewise, it is assuming the student did not complete the loan period if the calculation is done on a period of enrollment basis. That calculation would close out the original loan period. Then the student would start over with a new loan period for their new program that uses the remaining annual loan limit eligibility from the academic year associated with the first program.

If a student transfers from one program at your school to a different program at your school within the same academic year and is not considered to remain in the same payment period and loan period (regardless of whether the student completed the first program or is changing to a different program without having completed the first program), you may originate an initial loan for the new program with an abbreviated loan period that ends on the calendar period ending date of the academic year associated with the prior program, as described in more detail above. As with a student who transfers from a different school, for the abbreviated loan period, the student may receive up to the difference between the applicable annual loan limit for the new program and the loan amount that the student received for the prior program during the same academic year.

Volume 8, Chapter 7, Example 4: Transfer Into a Non-Term Credit-Hour Program at the Same School

A school offers some programs in a standard term academic calendar and other programs in a non-term calendar. A first-year dependent undergraduate student enrolls in a standard term program with an SAY consisting of fall, winter, and spring quarters and receives the first and second disbursements of a Direct Subsidized Loan (total of \$2,234) and a Direct Unsubsidized Loan (total of \$1,334). The loan period and academic year dates are September 1 to May 31.

The student decides not to finish the program and after completing the winter quarter transfers to a 2-year non-term credit hour program offered at the same school. The academic year for the new program is defined as 24 semester hours and 30 weeks of instructional time. The student begins the new program on March 1. For the new program, the school may originate an initial loan for an abbreviated loan period that begins on March 1 and ends on May 31, the ending date of the academic year associated with the loans the student received for the first program. For the abbreviated loan period, the student can receive up to \$1,932, not more than \$1,266 of which may be subsidized. This represents the difference between the first-year dependent undergraduate annual loan limit (\$5,500, maximum \$3,500 subsidized) and the loan amounts received for the first program during the overlapping academic year.

On June 1, the first BBAY 3 for the new program will begin. (BBAY 3 must be used because this is a non-term credit-hour program.) The loan period will be for the first full academic year of the new program (the period during which the student will be expected to complete 24 semester hours and 30 weeks of instructional time).