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## SUPPLEMENTAL STUDENT LOANS 4850.0011

### CHAPTER 4850

## HIGHER EDUCATION COORDINATING BOARD SUPPLEMENTAL STUDENT LOANS

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#### STUDENT EDUCATIONAL LOAN FUND (SELF); SUPPLEMENTAL AND ADDITIONAL LOANS

##### 4850.0010 PURPOSE.

The purpose of parts 4850.0010 to 4850.0018 is to augment Minnesota Statutes, sections 136A.14 to 136A.141, and 136A.15 to 136A.1702, establishing a state program of supplemental loans to postsecondary students by providing standards, criteria, and rules for the program.

**Statutory Authority:** *MS s 136A.111; 136A.1701*

**History:** *10 SR 1852*

##### 4850.0011 DEFINITIONS.

Subpart 1. **Academic year.** "Academic year" means:

A. a period of time, typically eight or nine months, in which a full-time student is expected to complete the equivalent of at least two semesters, two trimesters, or three quarters at an eligible school using credit hours;

B. at least 900 clock hours of training for a program at an eligible school using clock hours; or

C. a student may borrow for a portion of the academic year, or for all of it (see "loan period").

Subp. 2. **Anticipated graduation date.** "Anticipated graduation date" means the date indicated by the eligible school at the time the student applies for a SELF loan, as the date that the student will graduate given the enrolled program and normal satisfactory academic progress.

Subp. 3. **Board.** "Board" means the Minnesota Higher Education Coordinating Board.

Subp. 4. **Capitalized interest.** "Capitalized interest" means accrued interest that is added to the outstanding loan principal.

Subp. 5. **Certificate or degree.** "Certificate" or "degree" means a written or printed statement of the fact that the holder has met the eligible school's minimum requirements for completion and certifying a minimum mastery of the subject matter for a particular academic or vocational program.

Subp. 6. **Certification.** "Certification" means the statement of an eligible school that verifies and documents the identity, eligible enrollment, satisfactory academic progress, and cost of attendance of the borrower; performs the "maximum effort" test; and calculates the maximum allowable SELF loan eligibility and recommends a specific loan amount. The certification also shall indicate whether or not the student is in default of previous loans through:

A. checking loan history at the school;

B. checking an available financial aid transcript from a school previously attended by a borrower who is a transfer student; and

C. using any other information reasonably available to the school about the student's prior student loan history, written, verbal, or electronic.

**Subp. 7. Correspondence or external degree program.** "Correspondence or external degree program" is one that has no campus-based requirements or that provides the student no face-to-face contact with the financial aid officer.

**Subp. 8. Cost of attendance.** "Cost of attendance" includes:

- A. tuition and fees charged for the loan period;
- B. room and board charged for the loan period, or a reasonable allowance as determined by the school, for off-campus living; and
- C. a reasonable allowance as determined by the school for books, supplies, transportation, and personal expenses.

**Subp. 9. Credit worthy cosigner.** "Credit worthy cosigner" means one who, in the judgment of the board has:

- A. no credit bureau balances discharged through bankruptcy;
- B. no garnishments, attachments, foreclosure, repossession, or suit;
- C. no delinquent or unsatisfied credit obligation such as tax or mechanics liens, or judgments; or
- D. no more than five percent of current credit bureau balances past due.

**Subp. 10. Cosigners.** All borrowers from the student educational loan fund shall have a credit worthy cosigner who is either a United States citizen or a permanent resident. The cosigner is jointly and separately responsible for making loan payments (principal, interest, and other charges). The cosigner is relieved of this financial responsibility only in the event of death or permanent disability of the borrower.

- A. A cosigner must be at least 18 years old.
- B. A cosigner must be a person or an eligible school.

If the cosigner has no credit history, credit worthiness shall be determined by the board, by a review of banking references and a review of net worth data with a minimum test requiring that net worth equal or exceed a sum ten times the size of each loan amount requested.

**Subp. 11. Default.** "Default" means the condition that exists if the borrower fails to perform any of the conditions of the promissory note.

**Subp. 12. Delinquency.** "Delinquency" means the condition that exists when a borrower's scheduled payment of principal or interest or both is received by the board after the due date.

**Subp. 13. Due diligence.** "Due diligence" means the use of practices by the board in making, servicing, and collecting of SELF loans that are at least as extensive and forceful as those generally practiced by financial institutions for consumer loans.

**Subp. 14. Eligible school.** "Eligible school" means a school that:

- A. has been approved by the United States Department of Education to participate in federal title IV financial aid programs;
- B. is located in the United States or its territories; and
- C. signs an institutional loan participation agreement with the Minnesota Higher Education Coordinating Board that lists the duties and responsibilities of both the school and the board.

**Subp. 15. Eligible student.** "Eligible student" means a student who:

A. is enrolled in an eligible school in Minnesota, or is a Minnesota resident enrolled in an eligible school in another state or United States territory or is a student who graduated from a Minnesota high school and has not since established residence in another state and is enrolled in an eligible school in Minnesota or another state or United States territory;

B. is enrolled at least half-time in a program (other than a correspondence or external degree program) leading to a certificate, associate, baccalaureate, masters, doctorate, or other professional degree;

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C. is making satisfactory academic progress as defined by the school;

D. is not currently in default, as defined by each specific program, of any student educational loan program (GSL, FISL, NDSL, HPL, HEAL, ALAS/SLS, or other state supplemental loan program) at the current or any previous school;

E. is not currently delinquent in payment of interest or principal on an outstanding loan from the student educational loan fund;

F. has a credit worthy cosigner;

G. demonstrates financial eligibility by meeting the "maximum effort" test;

H. for those with loans made from the bonds, has at the time of application, an anticipated graduation date no later than November 1, 1992; and

I. has agreed to the release of information to a consumer credit reporting agency, as listed in part 4850.0012, subpart 4.

**Subp. 16. Enrolled student.** "Enrolled student" means a student who has registered for and begun the loan period at the eligible school.

**Subp. 17. Financial aid.** "Financial aid" includes all money flowing to the student that is contingent upon the student's enrollment at the eligible school.

**Subp. 18. Forbearance.** "Forbearance" means permitting the temporary halt of payments, allowing an extension of time for making payments, or accepting smaller payments than were scheduled.

**Subp. 19. Full-time student.** "Full-time student" means one who is enrolled in an eligible school and who carries a full-time postsecondary level, vocational or academic workload as determined by the eligible school, ending in a certificate or degree.

**Subp. 20. Grade level.** "Grade level" means the relative position of an eligible student in a degree or certificate granting program, and corresponds to an academic year. (For example, an eligible student in the second year of a four-year program would be in grade level 02.)

**Subp. 21. Graduate student.** "Graduate student" means a student who is pursuing a program, or has a baccalaureate degree and is enrolled in courses which are normally part of a program leading to a graduate or professional degree or certificate at an eligible school, and has successfully completed the equivalent of at least three years of full-time study at an eligible school either prior to entrance into the program or as part of the program itself.

**Subp. 22. Half-time student.** "Half-time student" means one who is enrolled in an eligible school and carrying a half-time academic workload as determined by the eligible school that amounts to at least one-half the workload of a full-time certificate or degree seeking student. In eligible schools utilizing clock hours, half-time enrollment includes programs requiring at least 300 clock hours.

**Subp. 23. In-school period.** "In-school period" means the period that the borrower is enrolled in an eligible school.

**Subp. 24. Late charge.** "Late charge" means a charge, not to exceed \$20, that is assessed against borrowers each time a payment of principal and/or interest is received by the board more than 15 days after the due date.

**Subp. 25. Loan period.** "Loan period" means the period for which the student receives the loan. The period begins on the first day of class. It must be at least 30 days in length, and must not exceed 12 months. A loan period may be the same as, or a portion of, the academic year. For example, the loan period may be for a single semester, or quarter.

**Subp. 26. Maximum effort.** To have used "maximum effort" means that the student has applied for and exhausted all eligibility for other forms of financial aid (except work-study, PLUS/ALAS, and HEAL) before applying for a SELF loan. Financial aid administrators must include any financial aid that has been awarded or is expected to be awarded to the student for the loan period.

Subp. 27. **Payout period.** "Payout period" means the time period which begins immediately following the transition period and runs to the earliest of:

- A. November 1, 2000, for those with loans made from the bonds; or
- B. ten years from the date the student ceases to be an eligible student;

or

- C. 15 years from the date of the first loan check; or
- D. a shorter period negotiated with the borrower.

Subp. 28. **The bonds.** "The bonds" means the variable rate demand bonds series 1984 issued by the Minnesota Higher Education Coordinating Board due December 1, 2000, for purposes of funding the student educational loan fund.

Subp. 29. **Transition period.** "Transition period" means a one-year (365 days) period immediately following graduation or termination of enrollment.

Subp. 30. **Undergraduate student.** "Undergraduate student" means a student who is not a graduate student.

**Statutory Authority:** *MS s 136A.111; 136A.134; 136A.16; 136A.1701; 136A.234*

**History:** *10 SR 1852; 13 SR 128*

#### 4850.0012 SCHOOL AGREEMENTS AND STUDENT APPLICATIONS.

Subpart 1. **Institutional loan participation agreement.** The eligible school and the board must sign a loan participation agreement that will:

- A. state the eligible school's responsibility for proper certification and delivery of loans to students; and

- B. name a representative of the eligible school who is to be responsible for the administration of the agreement.

Subp. 2. **Termination.** The board may terminate the agreement with an eligible school upon determining that the school is not complying with the rules in parts 4850.0010 to 4850.0018. All obligations of the school under the agreement shall continue in full force and effect with respect to all SELF loans then outstanding to students of the school.

Subp. 3. **Application, guarantee, and promissory note.** The student shall complete the SELF application and attached promissory note, and deliver or mail them to the eligible school for certification. The eligible school shall then deliver or mail the application and promissory note to the student who shall deliver or mail them to the cosigner who shall complete his or her portion of the application and promissory note and deliver or mail them to the board. The board will check the application and promissory note for completeness, determine the eligibility of the applicant, and conduct a credit check of the cosigner. If the board approves the loan application, the document file shall be sent to the trustee (or agent) for approval. The trustee (or agent) shall approve the application and forward the document file to the servicer or shall reject the application and return the document file to the board. The servicer shall enter the application on the servicing computer system, prepare and mail a disclosure statement to the borrower and cosigner, advise the school of the loan approval, schedule disbursements, deduct and mail the guarantee fee from the loan proceeds to the insurer, and place the document file in permanent storage. If the board rejects the loan application, the applicant and the cosigner must be advised in writing of the decision and the reasons for the rejection.

Subp. 4. **Release of information.** The following information about the borrower and cosigner will be periodically released to a consumer credit reporting agency throughout the life of the loan:

- A. the lender-assigned borrower identification number, if any;
- B. the name and address of borrower;
- C. the name and address of cosigner;

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- D. the date the account is opened;
- E. the outstanding account balance;
- F. the dollar amount past due;
- G. the number of payments past due;
- H. the number of late payments in previous 12 months;
- I. the type of account;
- J. the responsibility for the account; and
- K. the status or remarks code.

**Statutory Authority:** *MS s 136A.111; 136A.1701*

**History:** *10 SR 1852*

### **4850.0014 AMOUNT AND TERMS.**

Subpart 1. **Loan amounts.** The minimum loan amount from the student educational loan fund is \$1,000.

The annual and maximum loan amounts for:

A. an undergraduate student are those prescribed in Minnesota Statutes, section 136A.1701. The loan must not exceed the stated annual undergraduate borrowing maximum or the cost of attendance less all other financial aid (including PLUS loans borrowed on the student's behalf); and the cumulative student loan debt (excluding PLUS loans borrowed on the student's behalf) must not exceed the product of the grade level times the annual undergraduate borrowing maximum, except in grade level 05 when the cumulative undergraduate loan debt maximum stays the same as in grade level 04. For example, if the annual undergraduate borrowing maximum in statute was \$4,000, the cumulative undergraduate loan debt maximum, by grade level, is:

- (1) grade level 1, \$ 4,000;
- (2) grade level 2, \$ 8,000;
- (3) grade level 3, \$12,000;
- (4) grade level 4, \$16,000; and
- (5) grade level 5, \$16,000.

B. a graduate student are those prescribed in Minnesota Statutes, section 136A.1701. The loan must not exceed the stated annual graduate student borrowing maximum or the cost of attendance less all other financial aid (including PLUS loans borrowed on the student's behalf); and the cumulative student loan debt of the graduate student (excluding PLUS loans borrowed on the student's behalf) does not exceed the total amount prescribed in Minnesota Statutes for both undergraduate and graduate educations combined. For example, if the stated total borrowing maximum was \$25,000, the cumulative graduate student borrowing maximum, by grade level, is:

- (6) grade level 6, \$25,000;
- (7) grade level 7, \$25,000;
- (8) grade level 8, \$25,000; and
- (9) grade level 9, \$25,000.

### Subp. 2. **Two loans in one year.**

A. A student may borrow more than once in the same academic year as long as:

- (1) eligibility remains;
- (2) the annual borrowing maximum is not exceeded; and
- (3) the amount approved is at least \$1,000.

B. A student may borrow the annual maximum twice in the same grade level, as long as:

- (1) a total of 11 months elapses from the beginning of the first loan period to the beginning of the second loan period; and

(2) the cumulative loan debt maximum for that grade level is not exceeded.

C. A student who advances a grade level in the middle of an academic year may borrow at that new grade level, as long as:

(1) there is no more than one month overlap of loan period; and

(2) the cumulative loan debt maximum for that new grade level is not exceeded.

**Subp. 3. Interest rate.** For loans made from the bonds, the interest rate on the loan must be fixed by the board at a margin in excess of the "index rate" on the bonds. If the bonds bear interest at more than one rate at any one time, the "index rate" will be the weighted average of the interest rates. The "index rate" may change on Thursday of each week. If the "index rate" increases or decreases, the interest rate on the loan increases or decreases automatically on the same day without notice to the borrower. If the board determines that the margin does not reflect the costs of the SELF program, the board must increase or decrease the margin. The board shall advise borrowers of changes in the margin.

For loans made from sources other than the bonds, the interest rate on the loan will be determined by the board at a margin in excess of the "index rate." The "index rate" is the average rounded to the nearest quarter of one percent of the bond equivalent yield, for auctions of 13 week treasury bills, during the preceding calendar quarter. If the index rate increases or decreases, the interest rate on the loan automatically increases or decreases on the same day without notice to the borrower. The interest rate on the loan cannot increase or decrease more than two percentage points over any four consecutive calendar quarters. The board shall set the margin to reflect the costs of the SELF program. If the board determines that the margin does not reflect the costs of the SELF program, the board must increase or decrease the margin. The board shall advise borrowers of changes in the margin.

**Statutory Authority:** *MS s 136A.111; 136A.134; 136A.16; 136A.1701; 136A.234*

**History:** *10 SR 1852; 13 SR 128*

#### **4850.0015 LOAN DISBURSEMENTS.**

**Subpart 1. Disbursement scheduling.** Checks must be jointly payable to the borrower and the eligible school. If the loan period covers more than one academic or payment period, the loan must be disbursed in installments during each academic or payment period. (For example, if an eligible school's academic year is divided by quarters, the student's loan amount may be disbursed in three installments, once each quarter.) Disbursements must be made at the beginning of each academic term, unless the board requires or the school suggests other more appropriate dates.

**Subp. 2. Disbursement when check arrives before loan period.** A loan check must not be disbursed to the student before the start of the loan period. The school must wait until the student starts the loan period and after having checked enrollment and satisfactory academic progress requirements, must deliver the check to the student for the student's endorsement. The check must then be endorsed by the school. The school must next subtract from the proceeds the amount owed to it for the payment period, and make arrangements with the student for the use of any remaining proceeds. The remaining proceeds may be returned to the student or retained on account at the election of the student. The school may not keep on account any more money than it charges for that payment period without the written permission of the student.

**Subp. 3. Disbursement when check arrives during loan period.** When the check arrives during the loan period, the school, having checked enrollment and satisfactory academic progress, shall endorse the check along with the student,

subtract from the proceeds that amount owed to it for the payment period, and make arrangements with the student for the use of any remaining proceeds. The student has the same options for receiving any remaining proceeds as described in subpart 2. If the student is on a school approved leave of absence when the check arrives, the school may hold the check until the student returns. If the student fails to do so, the check must be returned to the board within 30 days from the date on the check.

**Subp. 4. Disbursement when check arrives after loan period.** When the check arrives after the loan period, the school, having checked enrollment and satisfactory academic progress, may endorse the check along with the student within 30 days from the end of the loan period, subtract from the proceeds that amount owed to it for the payment period, and make arrangements with the student for use of any remaining proceeds. The student has the same options for receiving any remaining proceeds as described in subpart 3. If the check arrives more than 30 days after the end of the loan period, the school must return the check to the board.

**Statutory Authority:** *MS s 136A.111; 136A.1701*

**History:** *10 SR 1852*

#### **4850.0016 NONENROLLMENT, TRANSFER, AND WITHDRAWAL.**

**Subpart 1. Nonenrollment.** A school shall return a check to the board for a student who fails to enroll within 30 days of the date on the check.

**Subp. 2. Withdrawal and transfer to another eligible school.** If the student fails to complete the loan period at the school where the loan application was certified and transfers to another eligible school, any remaining scheduled disbursements must be canceled. The school must immediately notify the board of any borrower who withdraws for any purpose. The student may apply for any remaining loan eligibility at the other eligible school, assuming the amount approved is at least \$1,000.

**Subp. 3. Withdrawal.** In the event that a borrower, for any reason, fails to complete a loan period and withdraws at a time when the institution pays a refund of charges to the student, an amount equal to the ratio of the disbursed loan to the total amount of the borrower's financial aid package for the same period is to be subtracted from the institutional refund amount, returned to the board, and applied to the outstanding loan amount.

**Subp. 4. Reduction of enrollment to less than half-time status.** The school shall notify the board immediately when a student reduces enrollment below a half-time status, but remains enrolled. Such a student shall be permitted to remain in an in-school repayment period for no more than six months including normal school vacation periods before the transition period begins.

**Statutory Authority:** *MS s 136A.111; 136A.134; 136A.16; 136A.1701; 136A.234*

**History:** *10 SR 1852; 13 SR 128*

#### **4850.0017 REPAYMENT PROCEDURES.**

Borrowers shall make payments of principal and interest according to the following schedule:

A. During the school period, the board or its agent shall bill borrowers for accrued interest once during each calendar quarter.

B. During the transition period, the board or its agent shall bill borrowers for accrued interest once during each calendar month.

C. During the payout period, borrowers must repay their loans in monthly installments of principal and interest. The interest rate may vary throughout the period. The board or its agent must bill borrowers monthly for amounts due. The sum of the monthly payments must equal the sum of accrued

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interest plus principal. The monthly payments of principal must be in amounts calculated at the beginning of the repayment period as if two conditions existed. The two conditions are: (1) interest on the loan accrues at a fixed rate equal to the interest rate in effect at the time of the calculation and (2) the loan is payable over its term in equal monthly installments. The borrower must pay a total of at least \$600 each year on all of the borrower's SELF loans. If the borrower's spouse also has SELF loans, their combined annual payments on all SELF loans must be at least \$600.

D. Late charges must be billed to the borrower on the 30-day delinquent letter mailed by the board and are due and payable immediately.

E. Interest payments during the in-school period that are delinquent in excess of 120 days from the billing date must be capitalized. Capitalization of past due interest must be limited to two occasions before filing a claim.

F. A prepayment penalty must not be assessed against borrowers who elect to make unscheduled payments of loan principal.

G. The board shall grant forbearances in those instances when the borrower experiences hardship in making payments of principal and/or interest, and when the cosigner has since died or become permanently disabled. Such a forbearance shall be granted for documented unemployment or similar financial hardship cases and is limited to 90 days, renewable upon further documentation for another 90 days.

H. The board shall provide borrowers and cosigners with an annual statement of outstanding principal and interest paid during the previous calendar year.

**Statutory Authority:** *MS s 136A.111; 136A.134; 136A.16; 136A.1701; 136A.234*

**History:** *10 SR 1852; 11 SR 1276; 13 SR 128*

## 4850.0018 CLAIMS.

Subpart 1. **When filed.** If after exercising due diligence, and after 120 days from the billing date the board fails to collect a payment from a borrower or the cosigner, a claim must be filed by the board with the program insurer for the outstanding principal of the loan plus accrued interest.

Subp. 2. **When paid.** Claims are paid in four categories:

A. A claim for death of the borrower must be filed by the board upon receipt of a death certificate. The cosigner's obligation to make any further payment of principal and interest or both on a SELF loan is canceled as of the date of death.

B. If the borrower becomes totally and permanently disabled, a claim must be filed by the board upon receipt of proper medical documentation. The cosigner's obligation to make any further payment of principal and interest on a SELF loan is canceled as of the date of medical documentation.

C. If a borrower or cosigner fails to perform any of the conditions of the promissory note, a claim must be filed by the board.

D. If a borrower is adjudicated bankrupt and has liability for the SELF loan discharged, the cosigner remains liable for unpaid principal and interest. If the cosigner fails to perform any of the conditions of the promissory note, the board shall file a claim.

**Statutory Authority:** *MS s 136A.111; 136A.1701*

**History:** *10 SR 1852*