



# NASFAA Authorized Event Overview of Direct Loan Eligibility

National Association of Student  
Financial Aid Administrators

**Overview of  
Direct Loan Eligibility**  
A NASFAA Authorized Event

Presented by  
Melissa Ibanez/PASFAA  
Fundamentals

Oct 24-25, 2021

\*For training purposes only; not for credential preparation. Slide 1 © 2021 NASFAA

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**Direct Subsidized Loans**

- Need-based
- Undergraduates only
- No accrual of interest for most loans during certain periods
- Repayment begins six months after borrower ceases at least half-time enrollment

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**Direct Unsubsidized Loans**

- Non-need-based
- Undergraduate, graduate, and professional students
- Interest accrues from date of disbursement
- Interest may be paid or capitalized
- Repayment begins six months after borrower ceases at least half-time enrollment

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# NASFAA Authorized Event Overview of Direct Loan Eligibility

## Direct PLUS Loans

- Non-need-based
- Parents of undergraduate students, and graduate/professional students
- If adverse credit history, additional eligibility requirements
- Interest accrues from date of disbursement
- Repayment begins 60 days after fully disbursed, unless deferred



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## Direct Loan Interest Rates and Fees

- Fixed or variable interest rates depending on when loan first disbursed
  - **Fixed: No change for life of the loan**
  - Variable: Rate fluctuates throughout repayment
- Origination fees
  - Deducted from each loan disbursement
  - Higher for PLUS loans
  - May vary annually



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## Interest

Loan Program	Level	Interest Rate*	Cap	Determination
Subsidized	Undergraduate	2.75%	8.25%	10-year Treasury Note + 2.05%
Unsubsidized	Undergraduate	2.75%	8.25%	10-year Treasury Note + 2.05%
Unsubsidized	Graduate/Professional	4.30%	9.5%	10-year Treasury Note + 3.6%

\*For loans first disbursed between 7/1/20 through 6/30/21. The rates for loans first disbursed on or after 7/1/21 and before 7/1/22 had not been announced when these materials were finalized.



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# NASFAA Authorized Event Overview of Direct Loan Eligibility

## The Application Process

- School calculates loan eligibility, based on:
  - FAFSA application data
  - Determination of eligibility for other aid
- Borrower must complete:
  - Master Promissory Note
  - Annual Student Loan Acknowledgement
    - Not required for 2021-22; see March 8, 2021 Electronic Announcement
  - Loan counseling, if required
- Dependency status affects loan eligibility



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## Direct Loan Master Promissory Note

- Paper or electronic
- Single- or multi-year feature
- New MPN required in certain cases
- Expires automatically after 10 years, or after 1 year if unused
- Separate PLUS MPN is required:
  - For more than one dependent student
  - From more than one parent for same student



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# NASFAA Authorized Event Overview of Direct Loan Eligibility

## PLUS Applications

- FAFSA required
  - Student eligibility
  - Parent eligibility
- Graduate/professional students must be informed of maximum unsubsidized loan eligibility before borrowing PLUS loan
- MPN required
  - Single-use or multi-year



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**You Are America's Smartest Investment**  
The U.S. Department of Education's office of Federal Student Aid provides more than \$200 billion in financial aid to help pay for college or career school each year.

**StudentAid.gov**

Consideration School: For thinking about going to college or a career school.  
In School: For the process of earning a degree or certificate.  
Parent: Create or help my child pay for college.  
Repayment: Have loans I need to repay.

**We'll share useful info and walk you through the PLUS loan process.**  
We have resources for parents looking to save for college and learn about financial aid. We also make loans to eligible parents to help pay for their child's undergraduate education expenses.

**POPULAR TOPICS**

- Apply for a Parent PLUS Loan
- Complete a Master Promissory Note (MPN) for a Parent PLUS Loan
- Complete the Annual Student Loan Acknowledgment
- Complete PLUS Credit Counseling
- Appeal a Credit Decision



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## Credit History

- COD checks for adverse credit history
  - Expires after 180 days
  - Identifies borrowers in default on Title IV loans
- Borrower with adverse credit history may appeal or re-apply with an endorser
  - If obtaining PLUS despite adverse credit history, borrower must complete counseling



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# NASFAA Authorized Event Overview of Direct Loan Eligibility

## Professional Judgment

School may use professional judgment to deny or reduce Direct Loan to a borrower

- Case-by-case basis
- Cannot discriminate
- Document the decision
- Communicate the decision in writing



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## Parent Refusal to Complete the FAFSA

- School may use professional judgment to award dependent student unsubsidized loan only, based on:
  - Parent refusal to complete FAFSA
  - Written documentation that parental support ended and when
  - Reason for refusal is not required
- Student portion of FAFSA completed
- ISIR will include rejects and no EFC



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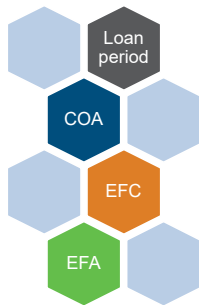
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## Factors for Calculating Loan Amounts



- Consider several interrelated factors
- For Direct Unsubsidized Loan and Direct PLUS, the EFC is not considered



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# NASFAA Authorized Event

## Overview of Direct Loan Eligibility

### Evaluating Financial Need

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### Annual Loan Limits

Academic Level	Base Annual Loan Limit for Academic Year (Subsidized and Unsubsidized Direct Loans)	Additional Unsubsidized Limit for Dependent Students Whose Parents Can Borrow PLUS	Additional Unsubsidized Limit for Independent Students and Dependent Students Whose Parents Cannot Borrow PLUS
First-Year Undergraduate	\$3,500	\$2,000	\$6,000
Second-Year Undergraduate	\$4,500	\$2,000	\$6,000
Third-Year and Beyond Undergraduate	\$5,500	\$2,000	\$7,000
Preparatory Coursework for Enrollment in an Undergraduate Program	\$2,625		\$6,000
Preparatory Coursework for Enrollment in a Graduate/Professional Program	\$5,500		\$7,000
Coursework for Teacher Certification/Credential	\$5,500		\$7,000
Graduate/Professional	\$0		\$20,500

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### Aggregate Loan Limits

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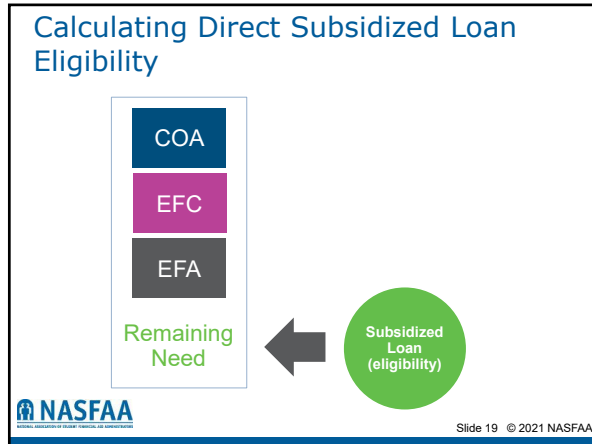
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# NASFAA Authorized Event

## Overview of Direct Loan Eligibility



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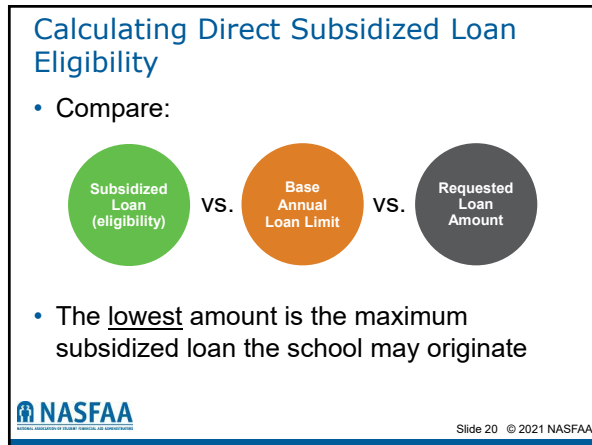
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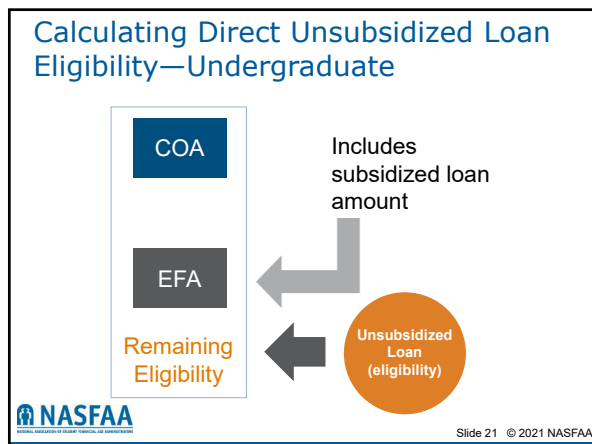
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# NASFAA Authorized Event

## Overview of Direct Loan Eligibility

### Calculating Direct Unsubsidized Loan Eligibility—Undergraduate

- Compare:
  - Unsubsidized Loan (eligibility)
  - vs.
  - Unsubsidized Annual Limit Remaining
  - vs.
  - Requested Loan Amount
- The lowest amount is the student's maximum unsubsidized loan eligibility

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### Calculating Direct Unsubsidized Loan Eligibility—Graduate

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### Calculating Direct PLUS Loan Eligibility

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# NASFAA Authorized Event Overview of Direct Loan Eligibility

## Prorated Loan Limits

- Determine the annual loan limit for programs or remaining periods of enrollment shorter than an academic year in length

**Question 1:** Is the student enrolled in either a program that is shorter than an academic year, or a remaining period of enrollment?

**Question 2:** If the program length is an academic year or longer, is the student's remaining period of enrollment shorter than an academic year?

**Question 3:** What portion of the academic year remains to be completed?

**Question 4:** What portion of the annual loan limit may the student borrow for the remaining period of enrollment?



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## Example: Standard-Term Program

- Standard semester credit-hour program
- Academic year is defined as 24 semester credit hours and 30 weeks
- Program is 60 semester credit hours to be completed in four semesters or 60 weeks
- Ray has 6 credits remaining in the program and will graduate after fall semester
- Dependent student



Ray



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## Example: Ray

### Questions for proration:

- Yes, it is a remaining period of enrollment
- Yes, the remaining period is shorter than an academic year
- Using the remaining 6/24 semester hours = 1/4 of AY remaining
- One-fourth of annual loan limit:
  - \$4,500 subsidized = \$1,125 maximum
  - \$2,000 unsubsidized = \$500 maximum



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# NASFAA Authorized Event Overview of Direct Loan Eligibility

**150 Percent Direct Subsidized Loan Eligibility Limitation**

**Maximum eligibility period**  
 – Total of subsidized usage periods  
 = Remaining eligibility period

- Maximum eligibility period is 150% of the length of the student's current program
- Subsidized usage period reflects the borrower's loan history

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**150 Percent Direct Subsidized Loan Eligibility Limitation**

- Encourages timely completion
- Applies to "first-time borrowers"
- Borrower may lose eligibility for subsidy

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    graph TD
      A[Borrower loses eligibility for Direct Subsidized Loans] --> B[Borrower does not complete program]
      B --> C[Borrower re-enrolls and loses interest subsidy]
    
```

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