

CHAPTER 4850

HIGHER EDUCATION SERVICES OFFICE

SUPPLEMENTAL STUDENT LOANS

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4850.0010 PURPOSE.

The purpose of parts 4850.0010 to 4850.0018 is to augment Minnesota Statutes, sections 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.04; 136A.111; 136A.16; 136A.1701; 136A.234*

History: *10 SR 1852; 15 SR 1780*

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; or

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

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. [Repealed, 20 SR 2214]

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 certifies a minimum mastery of the subject matter for a particular academic or vocational program.

Subp. 6. **Certification.** "Certification" means an eligible school 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 school also shall determine 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. [Repealed, 20 SR 2214]

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. **Creditworthy cosigner.** "Creditworthy cosigner" means one who, in the judgment of the director 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.

A cosigner will be considered creditworthy if the total amount in item C or D does not exceed \$50.

Subp. 10. **Cosigners.** All borrowers from the student educational loan fund shall have a creditworthy 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). A cosigner must:

- A. be a person at least 18 years old;
- B. agree to the release of information to a consumer credit reporting agency, as described in part 4850.0012, subpart 4; and
- C. permanently reside in the United States.

If the cosigner has no credit history, creditworthiness shall be determined by the director, 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 director after the due date.

Subp. 12a. **Director.** "Director" means the director of the office, or office staff who perform duties as assigned by the director.

Subp. 13. **Due diligence.** "Due diligence" means the use of practices by the office 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. meets the requirements for an eligible institution as defined in Minnesota Statutes, section 136A.15, subdivision 6; and
- B. signs an institutional loan participation agreement with the director that lists the duties and responsibilities of both the school and the director.

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, United States territory, or province as defined in Minnesota Statutes, section 136A.15, subdivision 5;
- B. is enrolled at least half-time in a program leading to a certificate, associate, baccalaureate, masters, doctorate, or other professional degree;
- 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 (Stafford Loan, GSL, FISL, NDSL, Perkins, HPL, HEAL, ALAS/SLS, or other similar federal, state, private, or institutional student 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 creditworthy cosigner;

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

H. for those with loans made from the SELF I 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. 16a. [Repealed, 20 SR 2214]

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 eligible student is enrolled on at least a half-time basis 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 director more than 15 days after the due date.

Subp. 24a. **Loan forgiveness.** "Loan forgiveness" means the obligation of the borrower and the cosigner to repay the SELF loan is forgiven due to the death or total and permanent disability of the borrower. The total and permanent disability of the borrower must occur after all disbursements of the loan are made in order for the loan to be totally forgiven.

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, federal student loans covered under Code of Federal Regulations, title 34, part 674, the federal Perkins Loan Program, Code of Federal Regulations, title

34, part 682, the federal Family Education Loan Program or FFEL, Code of Federal Regulations, title 34, part 685, the William D. Ford federal Direct Loan Program, or other similar federal student loan, 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. 26a. **Office.** “Office” means the Minnesota Higher Education Services Office.

Subp. 27. **Repayment period.** “Repayment 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 SELF I 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. **SELF I bonds.** “SELF I 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 12-month period immediately following graduation or termination of enrollment. Borrowers with loans made from sources other than the SELF I bonds may extend the transition period an additional period not to exceed 24 months. During the transition period, borrowers are billed for interest only.

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

Statutory Authority: *MS s 136A.01; 136A.04; 136A.111; 136A.134; 136A.16; 136A.1701; 136A.234*

History: *10 SR 1852; 13 SR 128; 15 SR 1780; 18 SR 1848; L 1995 c 212 art 3 s 59; 20 SR 2214*

4850.0012 SCHOOL AGREEMENTS AND STUDENT APPLICATIONS.

Subpart 1. **Institutional loan participation agreement.** The eligible school and the director 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 director 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. The termination of an agreement with a school shall be made pursuant to part 4830.0140.

Subp. 3. **Application and promissory note.** The student shall follow the appropriate SELF application process used at the eligible school. The student shall deliver or mail the application and promissory note to the cosigner who shall complete the cosigner’s portion of the application and promissory note and deliver or mail them to the director. The director will check the application and promissory note for completeness, determine the eligibility of the applicant, and conduct a credit check of the borrower and the cosigner. If the director approves the loan application, the document file is forwarded to the servicer. The servicer shall prepare and mail a disclosure statement to the borrower and cosigner, advise the school of the loan approval, schedule disbursements, and place the document file in permanent storage. If the director 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;
- 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.01; 136A.04; 136A.111; 136A.16; 136A.1701; 136A.234*

History: *10 SR 1852; 15 SR 1780; 17 SR 1279; 18 SR 1848; 20 SR 2214; 24 SR 389*

4850.0014 AMOUNT AND TERMS.

Subpart 1. **Loan amounts.** The minimum loan amount from the student educational loan fund is \$500.

The annual and maximum loan amounts for:

A. an undergraduate student are those prescribed in this part, not to exceed the limits specified in Minnesota Statutes, section 136A.1701, subdivisions 4 and 5. The loan must not exceed the annual SELF borrowing maximums of \$4,500 for grade levels one and two, and \$6,000 for grade levels three, four, and five or the cost of attendance less all other financial aid (including PLUS loans or other similar federal parent loans borrowed on the student's behalf); and the cumulative SELF loan debt must not exceed the aggregate SELF borrowing maximums by grade level indicated in this subpart. The cumulative undergraduate borrowing maximums for SELF loans are:

- (1) grade level 1, \$ 4,500;
- (2) grade level 2, \$ 9,000;
- (3) grade level 3, \$15,000;
- (4) grade level 4, \$21,000; and
- (5) grade level 5, \$25,000.

B. a graduate student are those prescribed in Minnesota Statutes, section 136A.1701. The loan must not exceed the annual SELF graduate student borrowing maximum of \$9,000 for grade levels 6 through 9 or the cost of attendance less all other financial aid (including PLUS loans borrowed on the student's behalf); and the cumulative SELF student loan debt of the graduate student does not exceed \$40,000 for both undergraduate and graduate educations combined.

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 \$500.

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 SELF 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 the cumulative SELF loan debt maximum for that new grade level is not exceeded.

Subp. 3. **Interest rate.** For loans made from the SELF I bonds, the interest rate on the loan must be fixed by the director 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 director determines that the margin does not reflect the costs of the SELF program, the director must increase or decrease the margin. The director shall advise borrowers of changes in the margin.

For loans made from sources other than the SELF I bonds, the interest rate on the loan will be determined by the director 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 director shall set the margin to reflect the costs of the SELF program. If the director determines that the margin does not reflect the costs of the SELF program, the director must increase or decrease the margin. The director shall advise borrowers of changes in the margin.

Statutory Authority: *MS s 136A.01; 136A.04; 136A.111; 136A.134; 136A.16; 136A.1701; 136A.234*

History: *10 SR 1852; 13 SR 128; 15 SR 1780; 18 SR 1848; 20 SR 2214; 22 SR 1369; 24 SR 389*

4850.0015 LOAN DISBURSEMENTS.

Subpart 1. **Disbursement scheduling.** If loan proceeds are in the form of an individual check, the check 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 director requires or the school suggests other more appropriate dates.

Subp. 2. **Disbursement when loan proceeds arrive before loan period.** Loan proceeds must not be disbursed to the student before the start of the loan period. The school must verify the student's enrollment and that the student meets satisfactory academic progress requirements. If the loan proceeds are in the form of an individual check, the school must deliver the check to the student for endorsement. The check must then be endorsed by the school. In the case of either a check or an electronic funds transfer, the school must next subtract from the loan 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 loan proceeds arrive during loan period.** When the loan proceeds arrive during the loan period, the school must verify the student's enrollment and that the student meets satisfactory academic progress requirements. If the loan proceeds are in the form of an individual check, the school 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 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. In either case, 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 loan proceeds arrive and is scheduled to return within 30 days from the date on the check or the date of the electronic funds transfer, the school may hold the loan proceeds until the student returns. If the student fails to return or does not show up for disbursement, the loan proceeds must be returned to the director within 30 days from the date on the check or the date of the electronic funds transfer, whichever is applicable.

Subp. 4. Disbursement when loan proceeds arrive after loan period. When the loan proceeds arrive after the loan period, the school must verify the student's enrollment and that the student meets satisfactory academic progress requirements. If the loan proceeds are in the form of an individual check, the school 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 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. In either case, the student has the same options for receiving any remaining proceeds as described in subpart 2. If the loan proceeds arrive more than 30 days after the end of the loan period, the school must return the loan proceeds to the director.

Statutory Authority: *MS s 136A.01; 136A.04; 136A.111; 136A.16; 136A.1701; 136A.234*

History: *10 SR 1852; 15 SR 1780; 20 SR 2214; 22 SR 1369*

4850.0016 NONENROLLMENT, TRANSFER, AND WITHDRAWAL.

Subpart 1. Nonenrollment. A school shall return a payment to the director for a student who fails to enroll within 30 days of the payment date.

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 director 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 \$500.

Subp. 3. Withdrawal. In the event that a borrower, for any reason, fails to complete a loan period, withdraws, and the school calculates a SELF refund for the borrower, that refund must be returned to the office for the SELF loan program within 45 days of the date the school becomes aware of the withdrawal. Refunds to the office are determined by items A and B.

A. Determine the percentage that the SELF loan represents of the student's total financial aid package for the applicable term.

B. Multiply that percentage by the amount determined to be refunded to the student under the school's refund policy. The result yields the amount to be refunded to the office.

Subp. 4. Reduction of enrollment to less than half-time status. The school shall notify the director 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.01; 136A.04; 136A.111; 136A.134; 136A.16; 136A.1701; 136A.234*

History: *10 SR 1852; 13 SR 128; 15 SR 1780; L 1995 c 212 art 3 s 59; 20 SR 2214*

4850.0017 REPAYMENT PROCEDURES.

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

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

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

C. During the repayment period, the office or its agent shall bill borrowers for accrued interest and principal once during each calendar month. The interest rate may vary throughout the period. The sum of the monthly payments must equal the sum of accrued 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 office or its agent 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 director shall grant forbearances in those instances when the borrower experiences hardship in making payments of principal and/or interest, and when the cosigner has either died, become temporarily or permanently disabled, or for some other reason, such as unemployment or limited fixed income, demonstrated an inability to make payment. Such a forbearance shall be granted upon receipt of written documentation from the borrower and the cosigner relating to the unemployment or similar financial hardship case and is limited to 120 days, renewable upon further documentation for another 120 days. However, the borrower or cosigner must make at least three full payments before the forbearance is renewed.

H. Upon request, the director 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.01; 136A.04; 136A.111; 136A.134; 136A.16; 136A.1701; 136A.234*

History: *10 SR 1852; 11 SR 1276; 13 SR 128; 15 SR 1780; 18 SR 1848; L 1995 c 212 art 3 s 59; 20 SR 2214*

4850.0018 CLAIMS.

Subpart 1. **When filed.** If after exercising due diligence, and after 120 days from the billing date the director fails to collect a payment from a borrower or the cosigner, a claim must be filed to the bad debt reserve by the director 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 director upon receipt of a death record. 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 director 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.

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

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 director shall file a claim.

Statutory Authority: *MS s 136A.01; 136A.04; 136A.111; 136A.16; 136A.1701; 136A.234*

History: *10 SR 1852; 15 SR 1780; 20 SR 2214; L 2001 ISP9 art 15 s 32*