

1 Higher Education Coordinating Board

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3 Adopted Rules Relating to Supplemental Student Loans

4

5 Rules as Adopted

6 STUDENT EDUCATIONAL LOAN FUND (SELF)

7 MINNESOTA HIGHER EDUCATION COORDINATING BOARD (MHECB)

8 SUPPLEMENTAL AND ADDITIONAL LOANS

9 4850.0010 PURPOSE.

10 The purpose of parts 4850.0010 to 4850.0018 is to augment  
 11 Minnesota Statutes, sections 136A.14 to 136A.141, and 136A.15 to  
 12 136A.1702, establishing a state program of supplemental loans to  
 13 post-secondary students by providing standards, criteria, and  
 14 rules for the program.

15 4850.0011 DEFINITIONS.

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

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

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

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

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

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

33 Subp. 5. **Certificate or degree.** "Certificate" or "degree"  
 34 means a written or printed statement of the fact that the holder  
 35 has met the eligible school's minimum requirements for

1 completion and certifying a minimum mastery of the subject  
2 matter for a particular academic or vocational program.

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

- 11           A. checking loan history at the school;
- 12           B. checking an available financial aid transcript  
13 from a school previously attended by a borrower who is a  
14 transfer student; and
- 15           C. using any other information reasonably available  
16 to the school about the student's prior student loan history,  
17 written, verbal, or electronic.

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

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

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

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

- 32           A. no credit bureau balances discharged through  
33 bankruptcy;
- 34           B. no garnishments, attachments, foreclosure,  
35 repossession, or suit;
- 36           C. no delinquent or unsatisfied credit obligation

1 such as tax or mechanics liens, or judgments; or

2 D. no more than five percent of current credit bureau  
3 balances past due.

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

11 A. A cosigner must be at least 18 years old.

12 B. A cosigner must be a person or an eligible school.

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

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

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

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

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

30 A. has been approved by the United States Department  
31 of Education to participate in federal title IV financial aid  
32 programs;

33 B. is located in the United States or its  
34 territories; and

35 C. signs an institutional loan participation  
36 agreement with the Minnesota Higher Education Coordinating Board

1 that lists the duties and responsibilities of both the school  
2 and the board.

3 Subp. 15. Eligible student. "Eligible student" means a  
4 student who:

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

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

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

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

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

25 F. has a credit worthy cosigner;

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

28 H. has an anticipated graduation date no later than  
29 November 1, 1992; and

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

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

36 Subp. 17. Financial aid. "Financial aid" includes all

1 money flowing to the student that is contingent upon the  
2 student's enrollment at the eligible school.

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

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

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

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

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

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

34 Subp. 24. **Late charge.** "Late charge" means a charge, not  
35 to exceed \$20, that is assessed against borrowers each time a  
36 payment of principal and/or interest is received by the board

1 more than 15 days after the due date.

2 Subp. 25. **Loan period.** "Loan period" means the period for  
3 which the student receives the loan. The period begins on the  
4 first day of class and must not exceed 12 months.

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

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

15 A. November 1, 2000; or

16 B. ten years from the date the student ceases to be  
17 an eligible student; or

18 C. fifteen years from the date of the first loan  
19 check; or

20 D. a period negotiated with the borrower.

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

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

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

30 4850.0012 SCHOOL AGREEMENTS AND STUDENT APPLICATIONS.

31 Subpart 1. **Institutional loan participation agreement.**

32 The eligible school and the board must sign a loan participation  
33 agreement that will:

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

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

3 Subp. 2. Termination. The board may terminate the  
4 agreement with an eligible school upon determining that the  
5 school is not complying with the rules in parts 4850.0010 to  
6 4850.0018. All obligations of the school under the agreement  
7 shall continue in full force and effect with respect to all SELF  
8 loans then outstanding to students of the school.

9 Subp. 3. Application, guarantee, and promissory note. The  
10 student shall complete the SELF application and attached  
11 promissory note, and deliver or mail them to the eligible school  
12 for certification. The eligible school shall then deliver or  
13 mail the application and promissory note to the student who  
14 shall deliver or mail them to the cosigner who shall complete  
15 his or her portion of the application and promissory note and  
16 deliver or mail them to the board. The board will check the  
17 application and promissory note for completeness, determine the  
18 eligibility of the applicant, and conduct a credit check of the  
19 cosigner. If the board approves the loan application, the  
20 document file shall be sent to the trustee (or agent) for  
21 approval. The trustee (or agent) shall approve the application  
22 and forward the document file to the servicer or shall reject  
23 the application and return the document file to the board. The  
24 servicer shall enter the application on the servicing computer  
25 system, prepare and mail a disclosure statement to the borrower  
26 and cosigner, advise the school of the loan approval, schedule  
27 disbursements, deduct and mail the guarantee fee from the loan  
28 proceeds to the insurer, and place the document file in  
29 permanent storage. If the board rejects the loan application,  
30 the applicant and the cosigner must be advised in writing of the  
31 decision and the reasons for the rejection.

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

36 A. the lender-assigned borrower identification

- 1 number, if any;
- 2 B. the name and address of borrower;
- 3 C. the name and address of cosigner;
- 4 D. the date the account is opened;
- 5 E. the outstanding account balance;
- 6 F. the dollar amount past due;
- 7 G. the number of payments past due;
- 8 H. the number of late payments in previous 12 months;
- 9 I. the type of account;
- 10 J. the responsibility for the account; and
- 11 K. the status or remarks code.

12 4850.0014 AMOUNT AND TERMS.

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

15 The maximum loan amounts are:

16 A. for an undergraduate student, \$4,000 per academic  
17 year as long as the loan amount does not exceed the cost of  
18 attendance less all other financial aid (including PLUS loans  
19 borrowed on the student's behalf); and the cumulative student  
20 loan debt (excluding PLUS loans borrowed on the student's  
21 behalf) does not exceed the following grade level limitations:

- 22 (1) grade level 1, \$ 4,000;
- 23 (2) grade level 2, \$ 8,000;
- 24 (3) grade level 3, \$12,000;
- 25 (4) grade level 4, \$16,000; and
- 26 (5) grade level 5, \$16,000;

27 B. for a graduate student, \$6,000 per academic year  
28 as long as the loan amount does not exceed the cost of  
29 attendance less all other financial aid (including PLUS loans  
30 borrowed on the student's behalf); and the cumulative student  
31 loan debt of the student (excluding PLUS loans borrowed on the  
32 student's behalf) does not exceed \$25,000 for both undergraduate  
33 and graduate education.

34 Subp. 2. Two loans in one year. A student may borrow the  
35 annual maximum twice in the same academic year as long as:

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REVISOR OF STATUTES  
OFFICE BY:



1           A. a total of 11 months elapses from the beginning of  
2 the first loan period to the beginning of the second loan  
3 period; or

4           B. advances a grade level, but the student may not  
5 exceed the cumulative debt for that grade level.

6           Subp. 3. Interest rate. The interest rate on the loan  
7 must be fixed by the board at a margin in excess of the "index  
8 rate" on the bonds. If the bonds bear interest at more than one  
9 rate at any one time, the "index rate" will be the weighted  
10 average of the interest rates. The "index rate" may change on  
11 Thursday of each week. If the "index rate" increases or  
12 decreases, the interest rate on the loan increases or decreases  
13 automatically on the same day without notice to the borrower.  
14 If the board determines that the margin does not reflect the  
15 costs of the SELF program, the board may increase or decrease  
16 the margin within the limits of law. The board shall advise  
17 borrowers of changes in the margin. Information about how the  
18 interest rate is calculated will be available from the board or  
19 the financial aid office at the eligible school.

20 4850.0015 LOAN DISBURSEMENTS.

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

31           Subp. 2. Disbursement when check arrives before loan  
32 period. A loan check must not be disbursed to the student  
33 before the start of the loan period. The school must wait until  
34 the student starts the loan period and after having checked  
35 enrollment and satisfactory academic progress requirements, must

1 deliver the check to the student for the student's endorsement.  
2 The check must then be endorsed by the school. The school must  
3 next subtract from the proceeds the amount owed to it for the  
4 payment period, and make arrangements with the student for the  
5 use of any remaining proceeds. The remaining proceeds may be  
6 returned to the student or retained on account at the election  
7 of the student. The school may not keep on account any more  
8 money than it charges for that payment period without the  
9 written permission of the student.

10 Subp. 3. Disbursement when check arrives during loan  
11 period. When the check arrives during the loan period, the  
12 school, having checked enrollment and satisfactory academic  
13 progress, shall endorse the check along with the student,  
14 subtract from the proceeds that amount owed to it for the  
15 payment period, and make arrangements with the student for the  
16 use of any remaining proceeds. The student has the same options  
17 for receiving any remaining proceeds as described in subpart 2.  
18 If the student is on a school approved leave of absence when the  
19 check arrives, the school may hold the check until the student  
20 returns. If the student fails to do so, the check must be  
21 returned to the board within 30 days from the date on the check.

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

33 4850.0016 NONENROLLMENT, TRANSFER, AND WITHDRAWAL.

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

1 the date on the check.

2 Subp. 2. **Withdrawal and transfer to another eligible**  
3 **school.** If the student fails to complete the loan period at the  
4 school where the loan application was certified and transfers to  
5 another eligible school, additional loan disbursements to the  
6 student shall be permitted at the new school as long as the  
7 board is notified by the student or the school of the new  
8 enrollment. The school must immediately notify the board of any  
9 borrower who withdraws for any purpose. Refunds due the student  
10 as a result of the process of withdrawing and transferring to  
11 another eligible school need not be returned to the board. The  
12 new school shall certify the enrollment of the transferring  
13 student.

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

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

29 4850.0017 REPAYMENT PROCEDURES.

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

32 A. During the school period, the board or its agent  
33 shall bill borrowers for accrued interest once during each  
34 calendar quarter. Payments are due by the 15th day following  
35 the date of the billing.

1           B. During the transition period, the board or its  
2 agent shall bill borrowers for accrued interest once during each  
3 calendar month. Payments are due by the 15th day following the  
4 date of the billing.

5           C. During the payout period, the board or its agent  
6 shall provide borrowers with coupon books annually for repayment  
7 of loan principal and interest. The fixed amount of the coupon  
8 shall reflect (1) the interest rate in effect on the loan on the  
9 date the coupons are prepared (actual rate), added to a fixed  
10 percentage to be determined by the board (assumed rate), (2) the  
11 length of the payout period, and (3) the principal balance of  
12 the loan plus the amount of any unpaid interest as of the  
13 beginning of the year for which coupons are being prepared,  
14 assuming all scheduled payments are made. The actual interest  
15 rate on the loan must continue to vary. Payments of interest at  
16 the assumed rate exceeding actual interest accrued must be  
17 applied to the outstanding loan principal. If interest payments  
18 at the assumed rate are less than actual interest accrued, any  
19 unpaid interest not past due must be included in the calculation  
20 of the amount of the coupons for the following year. All of a  
21 borrower's SELF loans must be combined into one repayment  
22 schedule. The borrower must pay a total of at least \$600 each  
23 year on all of the borrower's SELF loans. If the borrower's  
24 spouse also has SELF loans, their combined annual payments on  
25 all SELF loans must be at least \$600.

26           D. Late charges must be billed to the borrower on the  
27 30-day delinquent letter mailed by the board and are due and  
28 payable immediately.

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

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

36           G. The board ~~may~~ shall grant forbearances in those

1 instances when the borrower experiences hardship in making  
2 payments of principal and/or interest, and when the cosigner has  
3 since died or become permanently disabled. Such a forbearance  
4 ~~might~~ shall be granted for documented unemployment or similar  
5 financial hardship cases and is limited to 90 days, renewable  
6 upon further documentation for another 90 days.

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

10 4850.0018 CLAIMS.

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

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

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

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

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

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