

1 Higher Education Services Office

2

3 Adopted Permanent Rules Relating to Supplemental Student Loans

4

5 Rules as Adopted

6 4850.0011 DEFINITIONS.

7 [For text of subps 1 and 2, see M.R.]

8 Subp. 3. [See repealer.]

9 [For text of subps 4 and 5, see M.R.]

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

17 A. checking loan history at the school;

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

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

24 Subp. 7. [See repealer.]

25 [For text of subp 8, see M.R.]

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

28 A. no credit bureau balances discharged through  
29 bankruptcy;

30 B. no garnishments, attachments, foreclosure,  
31 repossession, or suit;

32 C. no delinquent or unsatisfied credit obligation  
33 such as tax or mechanics liens, or judgments; or

34 D. no more than five percent of current credit bureau  
35 balances past due.

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

3 Subp. 10. **Cosigners.** All borrowers from the student  
4 educational loan fund shall have a credit worthy cosigner who is  
5 either a United States citizen or a permanent resident. The  
6 cosigner is jointly and separately responsible for making loan  
7 payments (principal, interest, and other charges). A cosigner  
8 must:

9 A. be a person at least 18 years old;

10 B. agree to the release of information to a consumer  
11 credit reporting agency, as described in part 4850.0012, subpart  
12 4; and

13 C. permanently reside in the United States.

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

19 [For text of subp 11, see M.R.]

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

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

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

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

32 A. meets the requirements for an eligible institution  
33 as defined in Minnesota Statutes, section 136A.15, subdivision  
34 6; and

35 B. signs an institutional loan participation  
36 agreement with the director that lists the duties and

1 responsibilities of both the school and the director.

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

4 A. is enrolled in an eligible school in Minnesota, or  
5 is a Minnesota resident enrolled in an eligible school in  
6 another state, United States territory, or province as defined  
7 in Minnesota Statutes, section 136A.15, subdivision 5;

8 B. is enrolled at least half-time in a program  
9 leading to a certificate, associate, baccalaureate, masters,  
10 doctorate, or other professional degree;

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

13 D. is not currently in default, as defined by each  
14 specific program, of any student educational loan program  
15 (Stafford Loan, GSL, FISL, NDSL, Perkins, HPL, HEAL, ALAS/SLS,  
16 or other similar federal, state, private, or institutional  
17 student loan program) at the current or any previous school;

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

21 F. has a credit worthy cosigner;

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

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

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

30 [For text of subp 16, see M.R.]

31 Subp. 16a. [See repealer.]

32 [For text of subps 17 to 22, see M.R.]

33 Subp. 23. In-school period. "In-school period" means the  
34 period that the eligible student is enrolled on at least a  
35 half-time basis in an eligible school.

36 Subp. 24. Late charge. "Late charge" means a charge, not

1 to exceed \$20, that is assessed against borrowers each time a  
2 payment of principal and/or interest is received by the director  
3 more than 15 days after the due date.

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

10 [For text of subp 25, see M.R.]

11 Subp. 26. **Maximum effort.** To have used "maximum effort"  
12 means that the student has applied for and exhausted all  
13 eligibility for other forms of financial aid (except work-study,  
14 federal student loans covered under Code of Federal Regulations,  
15 title 34, section 674, the federal Perkins Loan Program, Code of  
16 Federal Regulations, title 34, section 682, the federal Family  
17 Education Loan Program or FFEL, Code of Federal Regulations,  
18 title 34, section 685, the William D. Ford federal Direct Loan  
19 Program, or other similar federal student loan, and HEAL) before  
20 applying for a SELF loan. Financial aid administrators must  
21 include any financial aid that has been awarded or is expected  
22 to be awarded to the student for the loan period.

23 Subp. 26a. **Office.** "Office" means the Minnesota Higher  
24 Education Services Office.

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

28 A. November 1, 2000, for those with loans made from  
29 the SELF I bonds; or

30 B. ten years from the date the student ceases to be  
31 an eligible student; or

32 C. 15 years from the date of the first loan check; or

33 D. a shorter period negotiated with the borrower.

34 Subp. 28. **SELF I bonds.** "SELF I bonds" means the variable  
35 rate demand bonds series 1984 issued by the Minnesota Higher  
36 Education Coordinating Board due December 1, 2000, for purposes

1 of funding the student educational loan fund.

2 Subp. 29. Transition period. "Transition period" means a  
3 12-month period immediately following graduation or termination  
4 of enrollment. Borrowers with loans made from sources other  
5 than the SELF I bonds may extend the transition period an  
6 additional period not to exceed 24 months. During the  
7 transition period, borrowers are billed for interest only.

8 [For text of subp 30, see M.R.]

9 4850.0012 SCHOOL AGREEMENTS AND STUDENT APPLICATIONS.

10 Subpart 1. Institutional loan participation agreement.  
11 The eligible school and the director must sign a loan  
12 participation agreement that will:

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

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

17 Subp. 2. Termination. The director may terminate the  
18 agreement with an eligible school upon determining that the  
19 school is not complying with the rules in parts 4850.0010 to  
20 4850.0018. All obligations of the school under the agreement  
21 shall continue in full force and effect with respect to all SELF  
22 loans then outstanding to students of the school.

23 Subp. 3. Application and promissory note. The student  
24 shall follow the appropriate SELF application process used at  
25 the eligible school. The student shall deliver or mail the  
26 application and promissory note to the cosigner who shall  
27 complete the cosigner's portion of the application and  
28 promissory note and deliver or mail them to the director. The  
29 director will check the application and promissory note for  
30 completeness, determine the eligibility of the applicant, and  
31 conduct a credit check of the borrower and the cosigner. If the  
32 director approves the loan application, the document file is  
33 forwarded to the servicer. The servicer shall prepare and mail  
34 a disclosure statement to the borrower and cosigner, advise the  
35 school of the loan approval, schedule disbursements, and place

1 the document file in permanent storage. If the director rejects  
2 the loan application, the applicant and the cosigner must be  
3 advised in writing of the decision and the reasons for the  
4 rejection.

5 [For text of subp 4, see M.R.]

6 4850.0014 AMOUNT AND TERMS.

7 [For text of subpart 1, see M.R.]

8 Subp. 2. Two loans in one year.

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

11 (1) eligibility remains;

12 (2) the annual borrowing maximum is not exceeded;

13 and

14 (3) the amount approved is at least \$500.

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

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

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

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

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

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

29 Subp. 3. Interest rate. For loans made from the SELF I  
30 bonds, the interest rate on the loan must be fixed by the  
31 director at a margin in excess of the "index rate" on the  
32 bonds. If the bonds bear interest at more than one rate at any  
33 one time, the "index rate" will be the weighted average of the  
34 interest rates. The "index rate" may change on Thursday of each  
35 week. If the "index rate" increases or decreases, the interest

1 rate on the loan increases or decreases automatically on the  
2 same day without notice to the borrower. If the director  
3 determines that the margin does not reflect the costs of the  
4 SELF program, the director must increase or decrease the  
5 margin. The director shall advise borrowers of changes in the  
6 margin.

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

23 4850.0015 LOAN DISBURSEMENTS.

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

34 Subp. 2. Disbursement when loan proceeds arrive before  
35 loan period. Loan proceeds must not be disbursed to the student

1 before the start of the loan period. The school must verify the  
2 student's enrollment and that the student meets satisfactory  
3 academic progress requirements. If the loan proceeds are in the  
4 form of a check, the school must deliver the check to the  
5 student for endorsement. The check must then be endorsed by the  
6 school. If the loan proceeds have been transferred to the  
7 school by electronic funds transfer, the school must have the  
8 student sign a document indicating that the loan proceeds have  
9 been received and accepted by the student. In the case of  
10 either a check or an electronic funds transfer, the school must  
11 next subtract from the loan proceeds the amount owed to it for  
12 the payment period, and make arrangements with the student for  
13 the use of any remaining proceeds. The remaining proceeds may  
14 be returned to the student or retained on account at the  
15 election of the student. The school may not keep on account any  
16 more money than it charges for that payment period without the  
17 written permission of the student.

18 Subp. 3. Disbursement when loan proceeds arrive during  
19 loan period. When the loan proceeds arrive during the loan  
20 period, the school must verify the student's enrollment and that  
21 the student meets satisfactory academic progress requirements.  
22 If the loan proceeds are in the form of a check, the school  
23 shall endorse the check along with the student, subtract from  
24 the proceeds that amount owed to it for the payment period, and  
25 make arrangements with the student for the use of any remaining  
26 proceeds. If the loan proceeds arrive at the school by  
27 electronic funds transfer, the school must have the student sign  
28 a document indicating that the loan proceeds have been received  
29 and accepted by the student. The school must next subtract from  
30 the proceeds the amount owed to it for the payment period and  
31 make arrangements with the student for the use of any remaining  
32 proceeds. In either case, the student has the same options for  
33 receiving any remaining proceeds as described in subpart 2. If  
34 the student is on a school approved leave of absence when the  
35 loan proceeds arrive and is scheduled to return within 30 days  
36 from the date on the check or the date of the electronic funds



1 transfer, the school may hold the loan proceeds until the  
2 student returns. If the student fails to return or does not  
3 show up for disbursement, the loan proceeds must be returned to  
4 the director within 30 days from the date on the check or the  
5 date of the electronic funds transfer, whichever is applicable.

6 Subp. 4. Disbursement when loan proceeds arrive after loan  
7 period. When the loan proceeds arrive after the loan period,  
8 the school must verify the student's enrollment and that the  
9 student meets satisfactory academic progress requirements. If  
10 the loan proceeds are in the form of a check, the school may  
11 endorse the check along with the student within 30 days from the  
12 end of the loan period, subtract from the proceeds that amount  
13 owed to it for the payment period, and make arrangements with  
14 the student for use of any remaining proceeds. If the loan  
15 proceeds arrive at the school by electronic funds transfer, the  
16 school must have the student sign a document indicating that the  
17 loan proceeds have been received within 30 days of the end of  
18 the loan period and accepted by the student. The school must  
19 next subtract from the proceeds the amount owed to it for the  
20 payment period and make arrangements with the student for the  
21 use of any remaining proceeds. In either case, the student has  
22 the same options for receiving any remaining proceeds as  
23 described in subpart 2. If the loan proceeds arrive more than  
24 30 days after the end of the loan period, the school must return  
25 the loan proceeds to the director.

26 4850.0016 NONENROLLMENT, TRANSFER, AND WITHDRAWAL.

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

30 Subp. 2. **Withdrawal and transfer to another eligible**  
31 **school.** If the student fails to complete the loan period at the  
32 school where the loan application was certified and transfers to  
33 another eligible school, any remaining scheduled disbursements  
34 must be canceled. The school must immediately notify the  
35 director of any borrower who withdraws for any purpose. The

1 student may apply for any remaining loan eligibility at the  
2 other eligible school, assuming the amount approved is at least  
3 \$500.

4 Subp. 3. Withdrawal. In the event that a borrower, for  
5 any reason, fails to complete a loan period, withdraws, and the  
6 school calculates a SELF refund for the borrower, that refund  
7 must be returned to the office for the SELF loan program within  
8 45 days of the date the school becomes aware of the withdrawal.  
9 Refunds to the office are determined by items A and B.

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

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

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

23 4850.0017 REPAYMENT PROCEDURES.

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

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

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

32 C. During the repayment period, the office or its  
33 agent shall bill borrowers for accrued interest and principal  
34 once during each calendar month. The interest rate may vary  
35 throughout the period. The sum of the monthly payments must

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

11 D. Late charges must be billed to the borrower on the  
12 30-day delinquent letter mailed by the office or its agent and  
13 are due and payable immediately.

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

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

21 G. The director shall grant forbearances in those  
22 instances when the borrower experiences hardship in making  
23 payments of principal and/or interest, and when the cosigner has  
24 either died, become temporarily or permanently disabled, or for  
25 some other reason, such as unemployment or limited fixed income,  
26 demonstrated an inability to make payment. Such a forbearance  
27 shall be granted upon receipt of written documentation from the  
28 borrower and the cosigner relating to the unemployment or  
29 similar financial hardship case and is limited to 120 days,  
30 renewable upon further documentation for another 120 days.  
31 However, the borrower or cosigner must make at least three full  
32 payments before the forbearance is renewed.

33 H. Upon request, the director shall provide borrowers  
34 and cosigners with an annual statement of outstanding principal  
35 and interest paid during the previous calendar year.

1 4850.0018 CLAIMS.

2 Subpart 1. When filed. If after exercising due diligence,  
3 and after 120 days from the billing date the director fails to  
4 collect a payment from a borrower or the cosigner, a claim must  
5 be filed to the bad debt reserve by the director for the  
6 outstanding principal of the loan plus accrued interest.

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

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

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

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

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

25 REPEALER. Minnesota Rules, part 4850.0011, subparts 3, 7, and  
26 16a, are repealed.