

Stafford Master Promissory Note
Frequently Asked Questions*
February 2003
Updated April 2009

1. Which schools are eligible to use the Stafford Master Promissory Note (Stafford MPN) as a multi-year (serial) promissory note?

For loans certified on or after March 1, 2003, all schools located in the United States, unless notified otherwise by ED, may use the Stafford MPN as a multi-year promissory note.

2. Are schools that are eligible for the multi-year use of the Stafford MPN required to use the Stafford MPN as a multi-year note?

No. A school that is eligible for the multi-year use of the Stafford MPN may decide that it wants all or some of its borrowers to continue to complete a new Stafford MPN each year. Additionally, individual borrowers always have the option of completing a new Stafford MPN each year.

3. May a lender require students to submit a new Stafford MPN each year?

Yes. A lender may establish its own lending criteria with regard to the multi-year use of the Stafford MPN, thereby requiring certain borrowers to sign a new Stafford MPN for each loan. Generally, however, business partners make every effort to ensure that the school's choice in this matter is honored.

4. Can you explain "notification" and "confirmation" control points and their purposes?

There are a number of control points in the FFELP loan-making process that provide consumer protection and help prevent fraud and abuse. Notification and confirmation processes are two of these control points that replace the previous requirement that the borrower sign a new note for each loan period. Schools must decide which of these processes they want to use to help ensure that the borrower wants subsequent loans for each subsequent year. The notification/confirmation control points are based on existing processes that schools have in place for awarding financial aid. However, it is important that schools review these processes.

- Notification – a control option whereby the borrower is provided with information on the proposed loan amount and type and the borrower is asked to respond **only if** he or she wishes to reject the loan, reduce the loan, or adjust the loan mix (amount of subsidized and unsubsidized loans).
- Confirmation – a control option whereby the borrower is required to take action to confirm the loan offer or to request a specific loan amount.

5. Does a school have to document the notification or confirmation process it selects?

Yes. It is important that a school documents the notification or confirmation process that it intends to use. The school's review and documentation of its notification or confirmation process will help ensure a successful and smooth transition into the multi-year use of the Stafford MPN. Additionally, documentation could be requested in a program review.

6. If the school performs a confirmation process for Stafford loans, is the lender also required to perform another notification or confirmation process?

No. There is no requirement for both parties to complete a notification or confirmation process for Stafford loans. If the school performs a Stafford loan confirmation process, there is no additional requirement of notification or confirmation by the lender.

7. If the school does not perform either a notification or confirmation process for Stafford loans, is the lender required to do a notification or confirmation process?

It is important to remember that the school's policy establishes these processes. If, under the school policy, the school does not provide either a notification or confirmation process, the lender should complete one of these efforts. If the school chooses to require a confirmation process, the school may request its service provider(s) to do the confirmation on its behalf. The school should discuss the notification and confirmation process services that service providers can offer and discuss which options work best for the school and its student population.

8. Absent notification to the contrary from the school, may the lender assume that the school is performing a notification/confirmation process for Stafford loans and, thus, that the lender does not have to perform any notification/confirmation process?

It is recommended that lenders and schools work with each other to identify what each party is doing to support the notification/confirmation process for Stafford loans. This will improve communication with the borrower. Since existing requirements such as notification of aid, notification of funds received on campus, and disbursement disclosures meet notification requirements, both parties can be assured that certain activities will take place. The discussion between the parties helps ensure that supplemental notification or confirmation efforts, if any, are coordinated.

9. Should the lender or school hold a Stafford loan disbursement if the borrower did not complete the act of confirmation?

This depends on the school's policy. Confirmation is a choice made by the school. If the school requires confirmation prior to delivery of Stafford loan funds, a confirmation must be completed before the borrower can receive the funds. If the school prefers

confirmation, yet requests the lender to continue to disburse the loan without such confirmation, the lender should follow the school's desired policy.

10. What is a lender/servicer's liability in the notification/confirmation process for Stafford loans?

The lender/servicer is responsible for completing the notification/confirmation process pursuant to its agreement with the lender or school. Documentation of the processes used is important.

11. If a borrower has signed a Stafford MPN while attending a school that is ineligible for the multi-year use of the MPN and then either that school becomes eligible for the multi-year use or the student transfers to a school that is eligible, must the borrower sign a new Stafford MPN if he or she wants to borrow again?

Generally, no. In order for the borrower not to have to sign a new Stafford MPN, the borrower must have a valid MPN and be attending a school that is eligible for the multi-year feature of the MPN at the time of the subsequent loan. However, some schools have individual policies requiring new Stafford MPNs (e.g., for all transfer students).

12. If a student signs a Stafford MPN while enrolled in a school that is eligible for the multi-year use and later transfers to a school that is not, must the student sign a new MPN for new Stafford loans at the new school?

Yes. The Stafford MPN can be used for multi-year loans only if the school the borrower is attending is eligible for the multi-year use. If the student is attending a school that is ineligible for the multi-year use, the student must sign a new Stafford MPN for each new loan period.

13. Are there circumstances in which a borrower who has a previous loan(s) under a Stafford MPN must sign a new MPN?

There are several circumstances that would require a borrower who has a previous loan(s) under a Stafford MPN to complete a new MPN:

- If the borrower changes lenders, unless the lender changes as a result of merger or acquisition;
- If the borrower requests that the MPN no longer be used as the basis for making additional loans;
- If no disbursement is made within twelve months after the date the borrower signed the Stafford MPN (or, in the absence of a signature date, the date the lender received the MPN);

- If ten years has passed from the date the borrower signed (or the lender received) the Stafford MPN. (Note: If a portion of a loan is made on or before the ten-year limit on the signature date, remaining disbursements of that loan may be made.);
- In certain transfer situations where the student transfers to a school that is either not eligible to use, or chooses not to use, the multi-year feature of the MPN; and
- If the student transfers from a school that participates in the Direct Loan (DL) Program to a school that participates in the FFELP. A new Stafford MPN would also be required if the school itself changes from using DL to FFEL or vice versa.

14. My school has a student population that includes many transfer students. How does a new school know if a transfer student has an active Stafford MPN?

The new school will not necessarily know this. It is the lender's responsibility for knowing whether a borrower has an active Stafford MPN before disbursing a loan. A school can simply rely on the lender to meet its obligation under the Higher Education Act of 1965, as amended, or, if the school wants or needs to know whether there is an existing MPN, the school can contact the borrower's lender for this information.

15. Is it a problem for a student to have active Stafford MPNs with multiple lenders?

No, it is not a problem for a student to have more than one MPN with different lenders. The National Student Loan Data System (NSLDS), the Institutional Student Information Record (ISIR), and TG's guarantee edits help a school to ensure that it does not certify loan amounts for which the student is not eligible.

16. Will information on the ISIR help a school know whether a student has an active Stafford MPN?

The ISIR contains previous loan information but does not specifically indicate whether an active Stafford MPN exists. ISIR information can help a school identify a borrower's previous lender(s) if further MPN information is needed.

17. If a school is eligible for the multi-year use of the Stafford MPN and then becomes ineligible for the multi-year use, is it appropriate for lenders to send and schools to deliver the second and subsequent disbursements on a loan or should the remaining disbursements be made only if another Stafford MPN is secured?

Since eligibility under the multi-year use is tied to the loan, subsequent disbursements for a loan may be made. Additionally, if loan increases are requested for the same loan period (or for a period within the same loan period), the borrower is eligible for the additional funds. A new Stafford MPN is required if the borrower requests additional Stafford loans for a subsequent loan period.

18. If a refund is made to a loan made under a Stafford MPN that fully cancels the only loan on the MPN, what revocation rules apply?

None. A full cancellation of the only loan under a Stafford MPN does not revoke the ability to make new loans under the MPN. The Stafford MPN is still considered active (i.e., eligible for new loans) because the disbursement was made. Events that revoke the ability to make new loans under a Stafford MPN are described on the back of the MPN. A disbursed but later canceled Stafford loan does not trigger any of those revocation conditions.

19. With the Stafford MPN process, the reference information will no longer be forwarded to the guarantor. What about the exit counseling information schools are currently required to collect from Stafford borrowers (i.e., references)? Is this still a requirement?

The requirement for schools to report information gathered during Stafford loan exit counseling to the guarantor is still in effect. The Stafford MPN does not change that. Also, as today in electronic processing, the reference information on the application/MPN is not forwarded to the guarantor. Instead, the guarantor gathers this information from the lender at the time the lender requests default aversion assistance.

20. We have had several students return their signed Stafford MPN with a requested loan amount handwritten on the MPN. Does that invalidate the MPN or in some way limit the amounts the lender can provide the borrower after the first Stafford loan is disbursed?

The borrower's written request does not invalidate the Stafford MPN. Instead, the lender should consider the amount as identifying the borrower's requested loan amount for the loan being made. Any subsequent Stafford loan would follow the notification/confirmation process.

21. Has there been any type of discussion or guidance as to how a school should be notified if the origination rights of a Stafford MPN are transferred?

If this occurs, the lender should notify the borrower and school according to the practices in place today. For example, if a lender merges with or is acquired by another bank, the borrower is generally notified. The guarantor and lender work together to determine how best to notify schools and how best to handle the transition to the new lender codes. Through these processes, the parties determine how best to support the borrower's needs to ensure a single lender. The Stafford MPN does not change this, but merely facilitates the one lender rule.

22. If a disbursement on a Stafford loan is returned or a check is not cashed, does it satisfy the requirement that a disbursement was made within twelve months of the borrower's signature date?

Yes. Once a Stafford loan disbursement is sent, it is considered disbursed regardless of the disposition of the funds.

23. If a lender transfers origination rights to a new lender in a loan sale, are there two owners of the Stafford MPN?

In a sale transaction, loans are sold and purchased—not Stafford MPNs. The MPN merely provides evidence of each loan made under the MPN. The law was written to assure that buyers and sellers of MPN loans would each have sufficient evidence to enforce the loans each holds; i.e., the law indicates that each loan under a Stafford MPN can be separately enforced based on the original MPN or a true and exact copy of the MPN. The lender who possesses the original Stafford MPN after a sale transaction can enforce loans it holds based on the original MPN; and the lender who holds a copy of the Stafford MPN after a sale transaction can enforce the Stafford loans it holds based on a copy of the MPN.

Here are two examples:

- If a lender sells a Stafford loan but does not transfer the right to offer new Stafford loans under the existing Stafford MPN, then each lender can own separate loans under the same Stafford MPN. In this scenario, the parties need to agree on who will have possession of the Stafford MPN. The party that does not hold the original Stafford MPN will be able to enforce its loan based on a true and exact copy of the MPN.
- If the original lender sells the only Stafford MPN loan it holds and transfers to the new lender the right to offer new Stafford loans to the same borrower, then the original lender has not preserved the ability to make any new Stafford loans under the Stafford MPN, and the new lender would have the original Stafford MPN as evidence to enforce the Stafford MPN loan it acquired and any future Stafford loans it makes.

24. Is a new Stafford MPN required if the lender originates a subsequent Stafford loan for the borrower under a different federal lender ID (LID) than the LID used to originate prior Stafford loans?

A new Stafford MPN is not required, as the borrower has not changed lenders. Even though the lender has two LIDs, the lender remains the same. A new Stafford MPN is not required to originate the second or any subsequent Stafford Loan.

25. If the borrower changes lenders, how does the new lender get the Stafford MPN?

The new lender will have to collect another Stafford MPN.

26. Is the lender at risk if it continues to use an old (active) Stafford MPN when the school has requested that a new Stafford MPN be signed by the borrower?

This may be a program review issue. It is not an insurance or reinsurance issue. Of course, the lender will want to conduct business in the manner the school requests. In a competitive market, building strong partnerships is essential to success.

27. Is it the lender's responsibility to know whether or not a new Stafford MPN is needed?

Yes. In order to disburse a loan under the multi-year use of the Stafford MPN, the lender must determine that the Stafford loan is supported by a valid MPN, verifying that none of the revocation conditions have occurred and that the school submitting the certification is eligible for the multi-year use of the Stafford MPN.

28. What will lenders provide to borrowers when Stafford loans made under an MPN are paid in full?

Both the regulations and Stafford MPN provide for the lender to send the borrower either written notice that the loan is paid in full or the original or a copy of the Stafford MPN.

29. If the first disbursement of the first Stafford loan made under the Stafford MPN is originally made within 12 months of the borrower's signature date but is then later reissued after the 12-month period, is the ability to make new loans under a the Stafford MPN revoked? For example, the borrower's signature date on the Stafford MPN is July 1, 1999. The first disbursement of the first Stafford loan is originally made on May 1, 2000. For whatever reason, the school requests the disbursement to be reissued on July 15, 2000. Can the reissued disbursement and any subsequent disbursements be made under that Stafford MPN or is a new MPN required?

The revocation guidance states that if no initial disbursement is made within 12 months of the borrower's signature date, the ability to make new loans under a Stafford MPN is revoked. In the scenario above, the initial disbursement is made and then either canceled or refunded. The ability to make loans under the Stafford MPN remains in effect because the 12-month rule is not triggered. A new Stafford MPN is not required.

30. Similarly, is the ability to make new loans under a Stafford MPN revoked if the first disbursement of the first Stafford loan is disbursed and canceled within twelve months of the borrower's signature date but is later reinstated after the 12-month period?

No. A new Stafford MPN is not required. Initial disbursement was "made" even though it was later canceled.

31. Regarding calculating the 10-year period for making loans under a Stafford MPN, if the lender/servicer has the capacity of calculating a month/day/year specific date, should it be calculated in this manner or should the industry standard only allow for a month/year calculation?

The borrower's signature date will be the date used to determine when the ability to make new loans under a Stafford MPN expires, except when the borrower provides written notice that he or she does not wish to receive new loans under the Stafford MPN. Since the borrower's signature date field is month/day/year specific, the revocation date should be calculated using month/day/year.

32. Will the borrower need to sign a new Stafford MPN if the servicer of his/her loan changes?

No. A change of servicers does not require a new Stafford MPN. Generally, a borrower will be required to sign a new Stafford MPN only if he or she changes lenders.

*Note: The source documents from which the answers to these questions were derived are Dear Colleague Letters ANN-98-10, available at http://www.ifap.ed.gov/dpcletters/doc0352_bodyoftext.htm and GEN-02-10, available at <http://www.ifap.ed.gov/dpcletters/Gen0210.html>.