

**Chapter 1: SUPPLEMENTAL EDUCATION LOAN PROGRAM RULES**

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**SUMMARY:** The Maine Educational Loan Authority provides a limited amount of supplemental education loan funds to finance the costs of attendance at institutions of higher education. The funds are provided through the issuance of the Authority's bonds or obligations, interest on which may be excludable from gross income under Federal law and taxable income under Maine law. This rule establishes basic eligibility criteria for the Authority's supplemental education loan program. The basic criteria include significant application requirements, credit evaluation standards and loan charges. The Rule establishes ways in which loans may be made and serviced.

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**1. Supplemental Education Loans**

The Authority will originate or purchase a supplemental education loan to an eligible borrower provided that the following requirements or limitations shall have been satisfied:

- A. Eligible Students and Borrowers (§2),
- B. Eligible Schools (§3),
- C. Credit Underwriting (§4),
- D. Loan Amounts (§5),
- E. Finance Charges (§6),
- F. Repayment Terms (§7), and
- G. Any other Requirements in accordance with law.

**2. Eligible Students and Borrowers**

- A. A loan shall be made to or for the benefit of a student enrolled at an eligible school at the time the loan proceeds are disbursed to finance the cost of attendance for one (1) academic year or any part thereof. A statement of enrollment provided to the Authority from the school prior to disbursement of loan proceeds shall be evidence of enrollment for the semester, trimester or other academic period stated, provided that the Authority may require additional statements for any person. In addition, the school shall provide a statement of the cost of attendance less any financial aid awards known to the school and less any tuition prepayments. "Cost of Attendance" means the tuition and fees applicable to a student, together with an estimate of other expenses reasonably related to cost of attendance at an institution, including, without limitation, the cost of room and board, housing and food, transportation, books, supplies and the loan guarantee fee paid when the supplemental loan is originated.

- B. An eligible student is one who is either (i) a resident of the State and attending an eligible school, (ii) not a resident of the State and attending an eligible school in the State, or (iii) any other student to whom the Authority is permitted by law to make a loan, including an existing MELA borrower.
- C. An eligible borrower is any one or more of the following persons who has agreed to repay a supplemental loan:
  - (i) An eligible student, or
  - (ii) A parent, guardian or spouse of an eligible student (each a “co-borrower”).

Provided that an eligible borrower shall also include any guarantor or co-signor (each a “co-signor”) with respect to the eligible loan where the context may so require.

### **3. Eligible Schools**

An eligible school is any public or private educational institution in the United States and Canada determined by the Executive Director of the Authority to meet the following criteria:

- A. It provides a program of education beyond the high school level;
- B. It awards an associate, bachelors or advanced degree;
- C. It is an accredited institution; and
- D. It is an eligible institution under Title IV of the Higher Education Act of 1965.

### **4. Credit Underwriting**

In order to determine an applicant's capability to repay a supplemental loan, the applicant's total debt, including installment, revolving and mortgage debt and the supplemental loan, shall be reviewed. In addition, the following requirements are applicable:

- A. Credit bureau reports obtained from a nationally recognized credit bureau for each applicant, including the student borrower.
- B. Minimum two (2) year credit history and three trade lines for all co-borrowers and co-signors, or student if applying alone.
- C. No record of a paid or unpaid charged off account greater than \$250 within the past two (2) years.
- D. No record of a foreclosure, repossession, open judgment or suit, paid or unpaid tax lien, prior educational loan default or other negative public record items in the past seven years (exceptions may be granted where the applicant provides written documentation demonstrating the obligation has been paid).

- E. No record of a bankruptcy in the past seven (7) years (exceptions may be granted where the Applicant provides written documentation demonstrating the circumstances leading up to the bankruptcy were beyond his/her control. Examples - large medical expenses, unemployment due to being laid off or disabled, etc.).
- F. Debt/income ratio not to exceed fifty (50) percent and minimum income of at least \$1,667 for the applicants for a loan as a group when more than one co-borrower or co-signor exists. Debt is defined as monthly installment, revolving and mortgage payments. Income is gross monthly income for calculation purposes (income must be at least \$20,000 on an annual basis). The debt/income ratio and minimum income threshold may be modified by the Authority from time to time, based upon current market conditions.
- G. Additional underwriting criteria to be determined by the Authority based on credit scores obtained from a nationally recognized credit bureau.
- H. Except as otherwise specifically allowed above, documented exceptions to any of the criteria set forth in (A) through (G) above may be made but only in accordance with the Lender's customary credit policies for consumer loans, and only if the underwriter of credit signs off on the loan.
- I. At least one of the borrowers must be a U.S. citizen or certified Permanent Resident of the United States. A non-citizen applicant must submit a valid Form I-551 Alien Registration Receipt Card with the application. All borrowers must have a valid U.S. Social Security number.

## **5. Loan Amounts**

With respect to any one student, the maximum amount of a supplemental loan shall be the cost of education less any Financial Aid received for the academic period. The minimum loan amount per student will be \$1,000.00 per year. The minimum monthly payment, when principal is due, shall be at least \$50.00. No loan proceeds will be disbursed for any semester, trimester or other academic period until proof of enrollment for such period is provided.

## **6. Finance Charges**

- A. The finance charges on the supplemental loan may include a variable interest rate based on the Authority's cost of financing, which shall be as set forth in the form of note presently approved, including interest on Authority obligations plus a spread to cover the Authority's costs of credit enhancement, loan servicing, loan origination, administration and other related costs of the Authority's obligations and the supplemental loan program. The supplemental loan documents may provide that, if a loan is purchased by a loan guarantor selected by the Authority, if none of the Authority's obligations, proceeds of which were used to fund the supplemental loan, are outstanding or if there is no interest rate established for such obligations, the interest rate on the loan will be equal to a rate not more than the one year Treasury constant maturity immediately preceding each June 1, provided that in all such cases, the interest rate shall not exceed the maximum rate allowable by law.

- B. The finance charges on the supplemental loan may include a fixed interest rate, which shall be set forth in the form of note presently approved. The fixed interest rate shall be determined in accordance with the financing documents associated with the proceeds of the Authority's bonds or other obligations used to fund each loan. The fixed interest rate cannot be increased at any time over the life of each individual loan.
- C. A borrower may be assessed a loan guarantee fee. The guarantee fee shall not exceed an amount equal to six (6) percent of the principal amount of the supplemental loan. The guarantee fee assessed will be added to the principal balance of the loan at the time of disbursement.

## 7. Repayment Terms

- A. There will be no penalty for or prohibition of prepayment of any or all amounts due under a borrower's supplemental loan documents. Any prepayment shall be applied in order of the dates such principal is due.
- B. Principal shall be amortized at varying maturities not to exceed twenty (20) years in accordance with a schedule established by the Authority to provide for payment of its obligations. The term of repayment, which shall be set forth in the form of the note, will be determined in accordance with the financing documents associated with the proceeds of the Authority's bonds or other obligations used to fund each loan.
- C. At the option of the borrower, repayment of principal may be deferred while the student is continuously enrolled on at least a half-time basis and for up to six (6) months after the date the student is no longer enrolled on at least a half-time basis.
- D. The notes shall provide that the supplemental loans will be amortized and payments on the notes made on a monthly basis. The principal amount of any supplemental loan will be amortized on a level debt service basis over not more than 240 months, commencing, at the option of the borrower, within fifty-one (51) days of the date of disbursement of the supplemental loan or within six (6) months of the borrower's termination of enrollment or graduation. Each year with respect to each supplemental loan with a variable interest rate, the amount of the monthly payment will be recalculated based on the interest rate then in effect, and the note will be reamortized on a level debt service basis over the remaining life of the loan.

## 8. Forbearance

If the borrower is unable to make regular principal and interest payments, the Authority may suspend principal payments under certain circumstances for a limited amount of time.

Forbearance may be granted in accordance with the following standards:

- A. Forbearance will grant extension of the principal payment only. One of the following two definitions would apply to the condition or status of a loan in forbearance:
  - (i) The borrower pays the interest each month. This option would be offered to the borrower as the first remedy for a delinquency. The borrower would be eligible

for a total of twelve (12) months of reduced payments. This would be granted in increments of six (6) months.

- (ii) The borrower pays no interest during this period of forbearance. The interest that accrues is capitalized at the end of the forbearance period. This option would be made available to borrowers as a last attempt to prevent default.
- B. The borrower may request a reduced payment amount during or prior to their account becoming delinquent.
  - C. Borrowers who have already received twelve (12) months of forbearance will not be eligible for additional forbearances, provided, however, that in certain cases of extenuating circumstances, the Authority, in its discretion and in accordance with any applicable financing documents, may grant an administrative forbearance for an additional time period.
  - D. The borrower will be billed monthly during the forbearance period.
  - E. The borrower's account will appear to be in repayment during the interest only forbearance period. If payments are not made, then due diligence and collection activity will begin.
  - F. The Authority will be notified if the borrower becomes delinquent and reaches sixty (60) days of non-payment. This notification will be included in the Pre-Claims Assistance notice sent to the Authority.
  - G. If there is more than one "borrower," payment of the regular monthly installment will be sought from both or all of them before forbearance is granted.
  - H. Forbearance may be granted in the following situations:
    - (i) Unemployment

In requesting an unemployment forbearance, the borrower must provide the Authority with a written statement that he/she is actively seeking employment and verification that he/she is registered with at least one employment agency. A borrower cannot continue under this agreement if he/she is offered employment and rejects the offer as being unsuitable to his/her particular education or experience. A borrower will be considered automatically in default if he/she fails to accept such employment, fails to provide the Authority with the statement and verification described above, or knowingly misinforms the Authority of employment status.
    - (ii) Partial Disability

Partial disability forbearance may be granted if the borrower provides the Authority with a signed opinion from a licensed medical doctor, either his/her regular internist or a specialist in the field of his/her disability, that the borrower is unable to work. If the borrower fails to provide all the information requested by the Authority, or knowingly misinforms the Authority regarding his/her

disability or secures the required medical opinion through fraudulent means, the borrower will be considered in default.

(iii) Non-Delinquency Defaults

Borrower's failure to advise the Authority in a timely manner of changes in enrollment status shall be a default under the supplemental loan. The Authority may grant forbearance in this circumstance if satisfied that the failure was an oversight and not an act of willful deception.

(iv) Delinquency

The Authority will act in delinquency situations on the merits and problems of each individual case.

(v) Active Duty

In requesting an active duty forbearance, the borrower must provide the Authority with a written statement that he/she is actively enlisted in the military and verification of the active duty assignment begin and end dates.

(vi) The Authority may, at its discretion, grant forbearance for reasons that are not described in this section subject to the approval of any bond insurer on that particular loan.

## 9. School Notification and Refund Requirements

The school must report to the Authority, on a timely basis, the student's early termination from the school or any drop in enrollment status that would warrant a refund. The amount of the refund, if any, will be determined by the school's stated refund policy for the period of time the student actually attended. The note shall provide that any refund shall be forwarded to the Authority along with notification to the student on whose behalf the loan was made.

## 10. Loan Consolidation

Consolidation of loans usually results in lower payments, thus making it easier for borrowers to meet their obligations. Any consolidation loan request shall be treated as a new credit request. The following guidelines must be followed:

- A. The loans must be of the same type (i.e. qualified supplemental education loans).
- B. Borrower(s) must be U.S. citizen or certified Permanent Resident of the United States. A non-citizen applicant must submit a valid Form I-551 Alien Registration Receipt Card with the consolidation application. All borrowers must have a valid U.S. Social Security number.
- C. Borrower must be an existing MELA borrower. MELA may, in its discretion, offer a consolidation loan to non-MELA borrowers who either: (1) are a Maine resident; or (2)

have attended an approved Maine educational institution. Student's last school of attendance must be an approved MELA school.

- D. All loans being consolidated must be fully disbursed and in repayment or grace status.
- E. Loans which are thirty (30) or less days delinquent may be consolidated. Loans which are between thirty-one (31) and sixty (60) days delinquent may be consolidated if MELA reasonably believes the borrower has the willingness and ability to make the payments on the new consolidation loan because of the new lower payments. Written documentation must be included in the new loan file stating the specific reasons why the loan should be consolidated, as well as written documentation from the borrower(s) that he/she has the capacity to make payments on the new loan. No loans which are sixty-one (61) or more days delinquent may be consolidated.
- F. Loans being consolidated must have a minimum aggregate balance of at least \$10,000 and cannot exceed an aggregate balance of \$100,000 for non-MELA loans.
- G. Borrower(s) must provide the following documentation: proof of income substantiating the income listed on the application; proof of identity (i.e. copy of driver's license, state ID card, etc.); and a copy of the most recent loan statements for the loans being consolidated.
- H. The accrued interest of the underlying loans shall be capitalized with the consolidation loan.
- I. The underwriting criteria for establishing the eligibility of loans to be consolidated shall be as follows:
  - (i) Credit bureau reports obtained from a nationally recognized credit bureau for each applicant.
  - (ii) Minimum two (2) year credit history and three trade lines for the eligible borrower.
  - (iii) No record of a paid or unpaid charged off account greater than \$250 within the past two (2) years.
  - (iv) No record of a foreclosure, repossession, open judgment or suit, paid or unpaid tax lien, prior educational loan default or other negative public record items in the past seven years (exceptions may be granted where Applicant provides written documentation demonstrating the obligation has been paid and the circumstances surrounding the negative public record no longer exists).
  - (v) No record of a bankruptcy in the past seven (7) years (exceptions may be granted where the Applicant provides written documentation demonstrating the circumstances leading up to the bankruptcy were beyond his/her control. Examples – large medical expenses, unemployment due to being laid off or disabled, etc.).

- (vi) Debt/income ratio not to exceed fifty (50) percent and minimum income of at least \$1,667 for the applicants for a loan as a group. Debt is defined as monthly installment, revolving and mortgage payments. Income is verified gross monthly income for calculation purposes (income must be at least \$20,000 on an annual basis) . The debt/income ratio and minimum income threshold may be modified by the Authority from time to time, based upon current market conditions.
- (vii) Additional underwriting criteria to be determined by the Authority based on credit scores obtained from a nationally recognized credit bureau.

J. Finance Charges

- (i) The finance charges on the supplemental consolidation loan may include a variable interest rate based on the Authority's cost of financing, which shall be as set forth in the form of note presently approved, including interest on Authority obligations plus a spread to cover the Authority's costs of credit enhancement, loan servicing, loan origination, administration and other related costs of the Authority's obligations and the supplemental consolidation loan program. The supplemental consolidation loan documents may provide that if none of the Authority's obligations, proceeds of which were used to fund the supplemental consolidation loan, are outstanding or if there is no interest rate established for such obligations, the interest rate on the loan will be equal to a rate not more than the one year Treasury constant maturity immediately preceding each June 1, provided that in all such cases, the interest rate shall not exceed the maximum rate allowed by law.
- (ii) The finance charges on the supplemental consolidation loan may include a fixed interest rate, which shall be set forth in the form of note presently approved, determined in accordance with the financing documents associated with the proceeds from the Authority's bonds or other obligations used to fund each loan. The fixed interest rate cannot be increased at any time over the life of the loan.
- (iii) A borrower may be assessed a loan guarantee fee. The guarantee fee shall not exceed an amount equal to six (6) percent of the principal amount of the supplemental consolidation loan. The guarantee fee assessed will be added to the principal balance of the loan at the time of disbursement.

K. Repayment Terms

- (i) There will be no penalty for or prohibition of prepayment of any or all amounts due under a borrower's supplemental consolidation loan documents. Any prepayment shall be applied in order of the dates such principal is due.
- (ii) Principal shall be amortized at varying maturities not to exceed thirty (30) years in accordance with a schedule established by the Authority to provide for payment of its obligations. The term of repayment, which shall be set forth in the form of the note, will be determined in accordance with the financing documents associated with the proceeds from the Authority's bonds or other obligations used to fund each loan.

- (iii) The notes shall provide that the supplemental consolidation loans will be amortized and payments on the notes made on a monthly basis. The principal amount of any supplemental consolidation loan will be amortized on a level debt service basis over not more than 360 months, commencing within fifty-one (51) days of the date of disbursement of the supplemental consolidation loan. Each year with respect to each supplemental consolidation loan with a variable interest rate, the amount of the monthly payment will be recalculated based on the interest rate then in effect, and the note will be reamortized on a level debt service basis over the remaining life of the loan.

## 11. Medical Loan Program

A Medical Loan has been developed to offer medical students access to low cost educational financing for their medical program. The MELA rules and guidelines as stated above are reflective of the rules and guidelines established for the medical loan program except as noted below:

### A. Eligible Student Borrower

A student borrower will be eligible for a medical loan if they have met the credit underwriting requirements for the Authority's supplemental loan program described in section 4. above, excluding paragraph 4. F. If a student borrower does not meet the eligibility requirements then they will be required to obtain a co-borrower(s). Underwriting criteria will then be the same as the MELA supplemental loan program described in section 4. above.

### B. Repayment Terms

- (i) There will be no penalty for or prohibition of prepayment of any or all amounts due under a borrower's supplemental loan documents. Any prepayment shall be applied in order of the dates such principal is due.
- (ii) Principal shall be amortized at varying maturities not to exceed twenty-five (25) years after entering repayment, in accordance with a schedule established by the Authority to provide for payment of its obligations. The term of repayment, which shall be set forth in the form of the note, will be determined in accordance with the financing documents associated with the proceeds from the Authority's bonds or other obligations used to fund each loan.
- (iii) At the option of the borrower, repayment of principal and interest may be deferred for up to six (6) months after graduation and/or residency. The program also allows for a residency deferment of up to four (4) years.

- (iv) The notes shall provide that the medical loans will be amortized and payments on the notes made on a monthly basis once the borrower has entered repayment. The principal amount of any medical loan will be amortized over not more than 300 months, when the borrower enters repayment. Each year with respect to each medical loan with a variable interest rate, the amount of the monthly payment will be recalculated based on the interest rate then in effect, and the note will be reamortized on a level debt service basis over the remaining life of the loan.

## 12. Program Implementation

The Authority may retain such originators, servicers, trustees, custodians, attorneys, accountants, consultants, and others as are necessary to implement the supplemental loan program.

## 13. Federal Bond Ceiling

Any allocation of federal bond ceiling to the Authority shall be applied or carried forward first for student loan programs of the Authority and secondary markets and second for programs of other issuers.

STATUTORY AUTHORITY: 20-A MRSA §11417(1)(N)

EFFECTIVE DATE:

August 13, 1988

AMENDED:

March 19, 1991 -	Section 4(B)
March 19, 1991 -	Section 6(A)
March 19, 1991 -	Section 7(D)
June 17, 1997 -	Section 4
November 27, 1999 -	Section 11

NON-SUBSTANTIVE CORRECTION:

March 14, 2000 -	unit number and chapter title
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AMENDED:

December 27, 2003 -	Sections 4, 5, 6, 7, 10, 11, filing 2003-475
December 27, 2005 -	most of the chapter, filing 2005-503
June 25, 2008 -	filing 2008-270 (EMERGENCY)
August 24, 2008 -	filing 2008-370
August 3, 2009-	filing 2009-383
July 11, 2010-	filing 2010-284