

Prorating Annual Loan Limits



Requirements for processing Federal Stafford loans outline specific situations when certain borrowers are not eligible for their full annual loan amount, and which require financial aid administrators to prorate annual loan limits based on students' enrollment. The information below explains when and how annual loan limits for undergraduate students must be prorated to adhere to federal regulations. Schools should note that in all cases other than the two circumstances when proration is required, the school is not permitted to prorate loans.*

Federal Stafford loan proration regulations apply only to undergraduate students, and both subsidized and unsubsidized Stafford loans are subject to proration. A school only is required to prorate Stafford loans for undergraduate students when:

1. The student's program of study is shorter than the school's defined academic year; or
2. The student's program of study is equal to or longer than the school's academic year, but the student's final period of enrollment is shorter than the school's defined academic year.

Determining When to Prorate

When the student's program of study is shorter than the school's defined academic year: The school must calculate the student's loan eligibility using what commonly is called "proportional proration calculation #2." The school multiplies the student's applicable annual loan limit by the lesser of the following:

$$\frac{\text{Semester/trimester/quarter/clock hours enrolled}}{\text{Semester/trimester/clock hours in the school's defined academic year}}$$

OR

$$\frac{\text{Weeks enrolled in program}}{\text{Weeks in the school's defined academic year}}$$

When the student's program of study is equal to or longer than the school's academic year, but the student's final period of enrollment is shorter than the school's defined academic year: The school must calculate the student's loan eligibility using what commonly is called "proportional proration calculation #1." The school first must determine if that period of enrollment is shorter than the school's academic year. To make that determination, the school must note the following:

- ♦ **For a standard-term program (semester, trimester or quarter):** Prorate the student's loan if the student's remaining period consists of fewer terms than the school's defined academic year.
- ♦ **For a non-standard-term credit-hour program with terms that are substantially equal in length with each consisting of at least nine weeks of instructional time:** Prorate the student's loan if the student's remaining period consists of fewer terms than the school's defined academic year.
- ♦ **For a clock-hour or non-term program:** Prorate the student's loan if the student's remaining period consists of fewer clock or credit hours than the school's defined academic year.
- ♦ **For a non-standard-term program with terms that are not substantially equal in length with each consisting of at least nine weeks of instructional time:** Prorate the student's loan if the student's remaining period consists of fewer clock or credit hours than the school's defined academic year.

If the school determines that the student's final period of enrollment is shorter than the school's defined academic year: The school must calculate the student's loan eligibility as follows:

$$\frac{\text{Semester/trimester/quarter or clock hours enrolled in the program}}{\text{Semester/trimester/quarter or clock hours in the school's defined academic year}}$$

The amount that the school originates may be less than the prorated loan amount but may not be more than the prorated amount. Other limiting regulations — cost of attendance and budgeting, the amount the student requests or financial need — may reduce the amount that the school is permitted to originate.

Common Loan Proration Questions

Do I prorate the student's maximum annual loan amount or the calculated budget/need?

The school must prorate using the student's applicable annual loan limit. The student's actual amount of eligibility — the amount supported by his or her budget — may be less than the calculated prorated amount. If so, the school must originate the lesser of the two amounts.

Example:

Ann is a second-year, dependent, undergraduate student whose base Stafford annual loan limit is \$4,500 + \$2,000 in additional unsubsidized Stafford loan funds. She is enrolled in the final year of her program of study and will graduate after completing only the fall semester of the school's academic year, which is exactly one-half of the school's defined academic year.

1. The school should calculate the prorated loan limit based on the \$4,500 base and the \$2,000 annual loan limit — in this case, \$2,250 and \$1,000 for a total loan amount of \$3,250 in Stafford loan eligibility.
2. Then the school should calculate Ann's budget — her cost of attendance, expected family contribution and estimated financial assistance. The budget calculation shows that for the final semester, Ann needs \$2,775.
3. The school then compares the budget calculation of \$2,775 to the prorated annual loan limit of \$3,250 and certifies the loan for \$2,775, the lesser of the two.

Can the school prorate Stafford loans for students who are enrolled less than full time?

The school is not permitted to prorate a student's Stafford loan based solely on the fact that the student is enrolled less than full time.

Can the school prorate Stafford loans for all students who are enrolled for a single term?

The school may not prorate a student's loans because the student is enrolled for a single term unless the student is enrolled in the last term of the program of study. If the student requests the full annual loan limit for the single term, the school must originate the full amount for the student provided that amount is supported by the student's budget.

Can the school prorate Stafford loans for graduate and professional students?

No. Graduate and professional students are not subject to the proration requirements. The school must originate graduate and professional students' loans for the maximum loan amount for which they are eligible.

Can the school prorate Stafford loans for students who are enrolled in preparatory coursework or in coursework that is necessary to obtain a teacher certification?

No. The school is not permitted to prorate Stafford loans for students in either of these categories. The school must originate loans for students enrolled in preparatory coursework or in teacher certification programs for the maximum loan amount for which they are eligible.

***NOTE:** A school may choose to prorate an individual student's Stafford loan using professional judgment. This means the school must document, on a case-by-case basis, the reason for the professional judgment and must notify the student of its decision. The school may not establish a policy by which it prorates loans for a group of students (for example, students enrolled in a particular program of study or enrolled for summer term).

Proration Formula Examples:

Proportional proration calculation #1

John is an independent student, enrolled in a standard-term, credit-hour undergraduate program. His school's defined scheduled academic year requires a full-time student to complete at least 24 semester-hour credits within a two-semester 30-week period. John needs 15 credits to complete his final semester of study and only has enrolled for the fall term. Using the PPC #1 formula, divide the hours in which John is enrolled by the number of hours in the school's defined academic year, then multiply the result by the respective subsidized or unsubsidized loan limit.

John's eligibility for subsidized and unsubsidized Stafford loan funds is determined as follows:

$$15 \text{ hours} \div 24 \text{ hours} = .625$$

$$\$5,500 \times .625 = \$3,438 \text{ subsidized maximum annual loan limit.}$$

$$15 \text{ hours} \div 24 \text{ hours} = .625$$

$$\$5,000 \times .625 = \$3,125 \text{ unsubsidized maximum annual loan limit.}$$

Proportional proration calculation #1

Sharon is an independent student, enrolled in a non-term 1,500 clock-hour program. Her school's defined borrower-based academic year requires a full-time student to complete at least 900 clock hours within a 26-week period. Sharon is in the second year of her program and must complete the remaining 600 clock hours. Using the PPC #1 formula, divide the number of clock hours in which Sharon is enrolled by the number of clock hours in the school's defined academic year, then multiply the result by the respective subsidized or unsubsidized loan limit.

Sharon's eligibility for subsidized and unsubsidized Stafford loan funds is determined as follows:

$$600 \text{ hours} \div 900 \text{ hours} = .667$$

$$\$4,500 \times .667 = \$3,002 \text{ subsidized maximum annual loan limit}$$

$$600 \text{ hours} \div 900 \text{ hours} = .667$$

$$\$4,000 \times .667 = \$2,668 \text{ unsubsidized maximum annual loan limit}$$

Proportional proration calculation #2

Sue is a dependent student, enrolled in a non-term, 16-week, 600 clock-hour program. Her school's defined borrower-based academic year requires a full-time student to complete at least 900 clock hours within a 26-week period. Sue's prorated eligibility is based on the lesser of the amounts calculated using the proportional proration calculation #2.

Sue's eligibility for subsidized and unsubsidized Stafford loan funds is determined as follows:

Subsidized Eligibility Comparison

$$600 \text{ hours} \div 900 \text{ hours} = .667 \quad \$3,500 \times .667 = \$2,335$$

$$16 \text{ weeks} \div 26 \text{ weeks} = .615 \quad \$3,500 \times .615 = \boxed{\$2,153}$$

Unsubsidized Eligibility Comparison

$$600 \text{ hours} \div 900 \text{ hours} = .667 \quad \$2,000 \times .667 = \$1,334$$

$$16 \text{ weeks} \div 26 \text{ weeks} = .615 \quad \$2,000 \times .615 = \boxed{\$1,230}$$