phrase related to next payment due date has been added.

Section 682.401(b)(10)(vi)(B) Basic Program Agreement

Comments: Several commenters requested clarification as to whether the amount of the insurance premium to be returned was to be proportional in instances where a school refunds a portion of a loan that is less than a full disbursement to a lender, and the lender must refund the insurance premium to the borrower. Many commenters requested that the phrase "a portion of the loan" be replaced with the phrase "full disbursement of the loan" to reflect the fact that the Secretary was maintaining his existing policy that such a refund is necessary only if at least a full disbursement of the loan is returned. Another commenter requested that the regulations be revised to be consistent with the Direct Loan program by requiring that the refund of the insurance premium be applied to the borrower's loan balance rather than be refunded to the borrower. Other commenters suggested that the phrase "within 120 days of disbursement" be inserted to clarify the timeframe during which the refund of the insurance premium must be done.

Discussion: The Secretary clarifies that the lender should pro-rate the insurance premium fee. The Secretary also agrees that the refunds of the insurance premium should be refunded through application to the borrower's account, not a cash refund to the borrower. The Secretary does not agree that reference to "within 120 days of disbursement" should be inserted in section 682.401(b)(10)(vi)(B)(1) because the Secretary believes that the timing of the school's refund to the lender on behalf of the student should not prevent the borrower from receiving the benefit of the refund of the insurance premium.

Changes: The regulations have been revised to reflect that a proportional amount of the insurance premium should be refunded if the refund is less than the amount of a loan disbursement and that a refund for this purpose is an application against the borrower's loan account by the lender.

Section 682.402 (l)(1) Death, Disability, Closed School, False Certification and Bankruptcy Discharge

Comments: Many commenters agreed with the concept of the proposed regulations but requested that the regulations be revised to clarify that all payments should be returned to the sender, as is the case in the Direct Loan program, and that any notification of no further obligation to repay a loan

discharged in bankruptcy or loan cancelled due to the borrower's total and permanent disability should be sent to the borrower. Many comments also recommended that the regulations be revised to provide that the lender return payments received only after the guaranty agency has paid the claim. The commenters were concerned that until the agency has reviewed and made a determination on the lender's claim, it is risky to refund payments.

Discussion: The Secretary agrees with the commenters that lenders and guaranty agencies should return payments on all discharged loans to the sender consistent with the handling of discharges in the Direct Loan program. However, the notification that there is no further obligation to repay the loan should always be directed to the borrower. The Secretary also agrees that payments received on discharged loans should not be returned until the discharge claim is paid by the guaranty agency.

Changes: The regulations have been revised to reflect the commenters' recommendations.

Section 682.412(c) Consequences of the Failure of a Borrower or Student To Establish Eligibility

Comments: Most commenters supported the Secretary's clarification to allow a borrower 30 days from the date a final demand letter is *mailed* by the lender to repay a loan amount that the borrower was ineligible to receive. One commenter disagreed with the proposal, stating that in a large agency it may be impossible to verify the date the letter is mailed unless the borrower retains the envelope with the post office cancellation stamp on it.

Discussion: The Secretary notes that lenders and guaranty agencies are currently required to maintain records establishing the dates certain collection notices are mailed (as required by 34 CFR 682.410(b)(1)(vi) and 682.411). Therefore, the Secretary believes that lenders will be able to determine when a letter is mailed for this purpose. The Secretary is concerned by the commenter's claim that large agencies are not tracking these dates and will evaluate whether reviews of lender operations in this area are necessary.

Changes: None.

Section 682.603 Certification by a Participating School in Connection With a Loan Application

Comments: All commenters agreed with the Secretary's proposal that in loan proration situations where a student is enrolled in a program of study with less than a full academic

year remaining, the school will not be required to recalculate the amount of the loan if the number of hours for which an eligible student is enrolled changes after the school certifies the loan. One commenter suggested the insertion of the phrase "or the student in the case of a PLUS loan" in section 682.603(g) of the regulations because the commenter was concerned that in the case of the PLUS loan, the school would likely assess the dependent student any fee since they would be unable to assess the parent borrower.

*Discussion:* The Secretary agrees with the minor technical correction to section

682.603(g).

*Change:* The phrase recommended by the commenter has been inserted in section 682.603(g).

Section 682.605 Determining the Date of a Student's Withdrawal

Comments: All the commenters agreed with the Secretary's proposal to reinsert into the regulations the guidance on determining the date of a student's withdrawal in the case of a summer period of nonenrollment ("summer break") that had been inadvertently deleted from the regulations. One commenter suggested the provision be revised to reference the fact that the summer break could include summer terms during which the school offers classes, but most students are generally not required to attend. One commenter recommended that the "summer break" approach be extended to other periods of nonenrollment during the regular academic year. Several commenters also pointed out that an earlier revision of the regulations in section 682.607(c), governing the school's timeframe for making a refund to a lender for a student who has withdrawn, could create, in the case of unofficial withdrawals, unintended potential liability for schools. The commenters recommended that the 60 days for a timely refund be based on the date the school determines that a student has unofficially withdrawn as it was formerly, not the date of withdrawal, which may have taken place weeks, if not months, before the school determines the student has dropped out. The commenters also suggested that section 682.607(c)(1) also be revised to clarify what constitutes timely payment to the lender under the "summer break" language of section 682.605.

Discussion: The Secretary does not agree that the approach to determining student withdrawal following a period of summer nonenrollment should be more broadly applied to other periods of nonenrollment during the academic