disbursement of a Federal Perkins loan to a borrower was considered a separate Federal Perkins loan.

Changes: The Secretary is modifying the definition of "making of a loan" to state that a Federal Perkins loan is "made" when the borrower has signed the promissory note and the first disbursement of loan funds has occurred.

Section 674.16 Making and Disbursing Loans

Comments: Many commenters strongly supported the Secretary's proposal to eliminate the requirement that a student sign for each loan advance. Most commenters agreed that this was the single most important proposal to reduce burden in the administration of the Federal Perkins Loan Program. One commenter strongly objected to the elimination of the requirement that a student sign for each loan advance. This commenter stated that signing for each advance reinforced in the students' minds the amounts they borrowed. This commenter was also concerned that, without the borrower's signature authorizing each loan advance, the institution may not be able to obtain a judgment or assign the loan without incurring additional legal costs to prove that the student had actually borrowed the total amount owed on the loan.

Discussion: The Secretary appreciates the support the community has shown for this regulatory effort. The Secretary respects the commenter's concern for the integrity of the Federal Perkins Loan Program. However, the Secretary believes that the value of the borrower's signing for each advance is outweighed by the burden this requirement imposes on institutions and borrowers. On the other hand, under the regulations, an institution may choose to continue to require that the borrower sign for each advance. Moreover, the Secretary disagrees with the commenter that the failure to obtain a signature for each advance will preclude the institution from assigning the note or obtaining a judgment against the borrower.

The Secretary notes that § 668.165(b)(1) is being amended to require an institution to notify a student that a disbursement of Federal Perkins loan funds is being credited to the student's account.

Changes: None.

Section 674.31 Promissory Note

Comments: While many commenters supported the proposal to allow the Secretary's promissory note under the Federal Perkins Loan Program to be used as a sample note, thereby allowing

institutions to add items to the note as long as the substance of the note remains unchanged, many also requested clarification of this provision. Commenters asked whether changing the "substance" of the note meant changing the format of the note. Several commenters asked the Secretary to define "substance." Several commenters asked whether new items on the promissory note that imposed additional requirements, penalties, or benefits were acceptable to the Secretary, and if not, what was an acceptable additional item. One commenter recommended that the Secretary not make the proposed change. This commenter stated that other federal loan programs use a national note that requires no additions by the schools. This commenter felt strongly that the language and provisions used in the Federal Perkins Loan Program promissory notes should be consistent across the Program and urged the Secretary to maintain § 674.31 unchanged.

Discussion: The Secretary has reevaluated his proposal to amend § 674.31(a). The Secretary agrees with commenters that the proposed change allowing institutions to make nonsubstantive additions to the sample promissory notes is too vague. The Secretary believes that the addition of provisions to the promissory note that would impose additional requirements, penalties, or benefits constitutes a substantive change to the note.

The Secretary agrees with the commenter who recommended that the promissory note should remain a national note and with consistent provisions. The Secretary is, therefore, requiring institutions to use the promissory notes approved by the Secretary, rather than providing "sample" promissory notes. An institution may not change the text of the promissory note or rearrange the order of the text. An institution may make nonsubstantive changes, such as changing the size or style of the type or requiring a student to include his or her driver's license number.

Changes: The Secretary is changing § 674.31(a) to provide that institutions must use the promissory note provided by the Secretary and that institutions may only make changes to the notes provided that are nonsubstantive.

Section 674.33 Repayment

Comments: Commenters unanimously supported the Secretary's proposal to combine the last scheduled Federal Perkins loan payment with the next-to-last payment if the last payment is \$25 or less, an increase from \$15. One

commenter suggested that institutions be allowed to combine the last scheduled payment with the next-to-last payment if the last payment is \$50 or less.

Discussion: The Secretary's purpose in amending § 674.33 is to remove administrative burden and to improve an institution's success in collecting small loan balances. However, the Secretary does not wish to overly burden student borrowers. The Secretary believes that combining the last scheduled payment with the next-to-last payment if the last payment is \$50 or less may place a financial strain on student borrowers, thereby compromising the borrower's ability to pay off his or her loan.

Changes: None.

Section 674.47 Costs Chargeable to the Fund

Section 674.47 (g)

Comments: Of all the Federal Perkins Loan Program proposals in the NPRM, the Secretary's proposals related to ceasing collection activity generated the most comments. Most of these commenters made suggestions on ways to amend this provision. One commenter felt that, rather than ceasing collection activity, this provision should be modified to permit the write-off of defaulted accounts with outstanding balances between \$5 and \$25 after sending a first overdue notice. The commenter further noted that the proposed rule would require institutions to maintain accounts which would continue to accrue interest and would age over the years. Thus, loans under \$25 would eventually reach \$25. At that point the institution would have to perform due diligence on that loan under subpart C. The commenter noted that as a result there is no net gain to the institution in terms of administrative costs.

A commenter applauded the Secretary's attempt to provide relief for institutions handling defaulted accounts with outstanding balances of less than \$25, but the commenter felt the regulations should reflect a higher amount, *i.e.* \$100 or less.

Discussion: The Secretary does not agree with the commenter's suggestion to write off defaulted accounts with outstanding balances between \$5 and \$25 because it is inappropriate to write off debts of that amount. These are borrowers who are in default on a Federal loan. The borrower owes these amounts and the failure to collect these funds affects the future level of the Fund. However, the Secretary agrees with other commenters' suggestions to