raise the level at which an institution can stop collection efforts on a loan.

The Secretary agrees with the commenters that it may not be cost effective for an institution to continue collection efforts on small loan balances. Therefore, the Secretary will allow an institution to cease collection activity on defaulted accounts with balances of between \$25 and \$200, if the institution carried out the subpart C due diligence requirements and the account has not had any activity for four years. The Secretary chose a \$200 threshold because \$200 is the level at which an institution must make an annual determination to litigate a defaulted account.

If an institution chooses this option, these accounts may be included in its cohort default rate, if applicable. The borrower will still be in default and ineligible for further title IV, HEA program funds.

The Secretary agrees with the commenter's point regarding an institution's election to cease collection efforts on an account under \$25. Therefore, the institution will not have to exercise due diligence required under subpart C, even though interest will continue to accrue and may put the account over \$25, if it documents that it ceased collection activity when the account was under \$25. However, the institution would not be able to assign the account to the Secretary and the borrower will remain responsible for repaying the account, including accrued interest. In addition, the Secretary notes that these accounts will still be included in the institution's cohort default rate, if applicable, and the borrower is still in default and ineligible for title IV, HEA program funds.

Changes: The Secretary has modified paragraph (g)(1) to reflect the noted changes.

Comments: One commenter felt that there should be some way for an institution to use its own funds to pay off larger balance accounts with outstanding balances as high as \$100. The commenter did not feel it was cost effective to continue to track small amounts as defaults.

Discussion: An institution may pay off loan balances of its borrowers. However, under section 462(h)(2)(D) of the HEA, any such loans will be considered in default for purposes of calculating the institution's cohort default rate.

Changes: None.

Comments: A few commenters wanted a further explanation from the Secretary regarding proposed § 674.47(g)(2). These commenters did not understand how a loan which is not closed or paid-in-full could reduce the

assets of the Fund. One commenter felt that this proposal would not only be counter-intuitive, since loans in this category would remain as balances due, accruing interest and carrying penalties associated with default, but would also create a new area of administrative complexity for this new category of loans "in limbo." These commenters indicated that this change would burden institutions with additional costs in order to maintain this category of "due" but "non-asset" loans.

Discussion: The Secretary agrees with the commenters' points and apologizes for any confusion this proposed provision might have caused. It was the Secretary's intent to reduce burden in the administration of the Federal Perkins Loan Program. It was not the Secretary's intent to burden institutions with additional costs and a new systems design. Because these accounts are still "open," institutions must include the amounts of these accounts as assets of the Fund when they choose to cease collection activities of defaulted accounts. However, when an institution writes off an account, in accordance with paragraph (h) of this section, these accounts would not remain an asset of the Fund.

Changes: The Secretary is amending paragraph (g) to remove the provision that would require an account on which the institution has chosen to cease collection activity to no longer be considered as an asset of the Fund.

Section 674.47(h)

Comments: While most commenters appreciated the Secretary's proposal to allow institutions to write off loan accounts with balances of less than \$1.00, all commenters were unanimously opposed to the proposed write-off amount. Commenters felt that \$1.00 was too stringent, that it was not cost effective in terms of real administration and collection costs, and that it would not accomplish the proposal's intended purpose: to provide relief to institutions in the administration of the Federal Perkins Loan Program. Commenters encouraged the Secretary to consider a higher amount, with the commenters suggesting amounts ranging from \$2 to \$25. A few commenters stated that the majority of their accounts with small remaining balances were \$5.00 or less, and that it would be clearly more effective and efficient to raise the amount to \$5.00.

Discussion: The commenters have convinced the Secretary that the proposed \$1 figure was too low. The Secretary has adopted the commenters' suggestions that the amount be raised to

\$5. Once these accounts have been written off, the account is considered as paid-in-full. The account will no longer be considered as an asset to the Fund, the account will not be counted in the institution's cohort default rate, if applicable, and the promissory note will be returned to the borrower marked as paid-in-full.

Changes: The Secretary is amending 674.47(h) to increase the write-off threshold to \$5.00. The Secretary is also amending paragraph (h) to provide that an account that has been written off may not be considered as an asset to the Fund.

Federal Work-Study Programs

Appendix B—Model Off-Campus Agreement

Comments: Four commenters supported the Secretary's proposal to remove the model off-campus agreement from regulation and include the agreement in the Federal Student Financial Aid Handbook. They felt that the Handbook is a more appropriate document and that this will make the sample agreement more easily accessible by aid administrators. One of these commenters suggested that the Secretary also include a model community service agreement in the Handbook.

Discussion: The off-campus agreement in Appendix B is a suggested model for the development of a written agreement between an institution of higher education and a federal, state, or local public agency or private nonprofit organization which employs students participating in the FWS Program. As stated in the model, institutions and agencies or organizations may devise additional or substitute paragraphs that are consistent with the statute or regulations and add any pertinent information that orients the agreement towards community services. Therefore, one sample off-campus agreement will be provided in the Federal Student Financial Aid Handbook for use in the FWS Program.

Changes: None.

Federal Family Educational Loan Program, and Direct Loan Program

Sections 682.201 and 685.200 Eligible Borrowers

Comments: Many commenters supported the proposal in the FFEL and Direct Loan Programs to allow a student's stepparent to borrow under the PLUS and Federal Direct PLUS Programs.

One commenter suggested that a stepparent should remain eligible to borrow on behalf of a stepchild if the