

The Business Office and the Direct Loan Program



CHAPTER

17

OVERVIEW OF THE DIRECT LOAN PROGRAM

The William D. Ford Federal Direct Loan Program (Direct Loan Program) was authorized under Title IV of the Higher Education Act of 1965, as amended (HEA) when the Student Loan Reform Act of 1993 was enacted. It began operation in the 1994-1995 award year. A major source of federal student financial assistance, the Direct Loan Program provides low-interest loans to eligible borrowers to cover postsecondary education costs. The Direct Loan program uses funds provided by the federal government, and makes loans available directly through participating institutions.

Types of Direct Loans

The following types of loans are available through the Direct Loan Program:

Federal Direct Stafford/Ford Loans (Direct Subsidized Loans) are made to students (undergraduate, graduate, and professional) who demonstrate financial need. Borrowers are not charged interest while they are enrolled in school at least half time and during grace periods and deferment periods. When borrowers cease to be enrolled at an eligible school on at least a half-time basis, a six-month grace period begins. The repayment period for a Direct Subsidized Loan begins and interest begins to accrue the day after the grace period ends.

Federal Direct Unsubsidized Stafford/Ford Loans (Direct Unsubsidized Loans) are made to students (undergraduate, graduate, and professional). They do not require students to demonstrate financial need. Borrowers are responsible for the interest that accrues during all periods over the life of a Direct Unsubsidized Loan. During periods of enrollment and the grace period borrowers may choose to pay the interest, or have it capitalized. When a borrower ceases to be enrolled at an eligible school on at least a half-time basis, a six-month grace period begins. The repayment period for a Direct Unsubsidized Loan begins the day after the grace period ends.

Federal Direct PLUS Loans (Direct PLUS Loans) allow parents, and in some cases stepparents to borrow on behalf of their dependent undergraduate children who are enrolled at least half time at a postsecondary school. Interest on a Direct PLUS Loan begins to accrue when the first installment is disbursed. Repayment begins when the loan is fully disbursed.

Traditionally, the FFEL regulations have referred to the lender's "disbursement" of funds to a school, and the school's "delivery" of the loan proceeds to a student. More recently, the Cash Management regulations have used the term "disbursement" to refer to the payment of FSA funds to a student or parent, including the payment of loan funds. In this chapter, we will use "disbursement" in the sense of the Cash Management regulations, that is, all payments to a student or borrower.

Direct Loan Program, cites

Title IV, Part D of the HEA
34 CFR 685



Federal Direct Consolidation Loans (Direct Consolidation Loans) allow borrowers (students or parents) to combine one or more federal education loans into one new Direct Loan requiring only one monthly payment. There are three types of Direct Consolidation Loans:

1. Direct Subsidized Consolidation Loans,
2. Direct Unsubsidized Consolidation Loans, and
3. Direct PLUS Consolidation Loans.

Even if a borrower consolidates his or her federal education loans from more than one category, the borrower still has only one Direct Consolidation Loan and makes only one monthly payment.



Direct Loan schools that use the e-MPN have found that e-MPNs link more easily to loans and disbursements if the schools have a process that ensures that a student doesn't create an e-MPN until after the school has created an origination record for the loan.

THE PROMISSORY NOTE

To receive a Direct Loan, a student (or parent, in the case of a Direct PLUS loan) must complete a Master Promissory Note (MPN). In the traditional paper process, the MPN will be printed by the school (or Common Origination and Disbursement (COD), at the school's option), and the borrower signs a copy and returns it to COD, or the school as appropriate. The borrower gets a copy, and the school may keep a third copy on file if it chooses to do so. If the school receives the signed MPN, the school forwards the MPN to COD.

Schools also have the option of participating in the electronic Master Promissory Note process (e-MPN). Students (or parents, if applicable) interested in an e-MPN should go to the Department's e-MPN Web site (www.dlenote.ed.gov) where they can obtain a pin, complete, electronically sign, and print a copy of the note. They can also return later to view an already executed e-MPN. Of course, borrowers may only sign an e-MPN if the school participates in the electronic Master Promissory Note process.

A student attending a school that participates in the e-MPN process has the option of requesting that a paper MPN be created and printed for his or her signature. If a student requests a paper MPN, the school **must** provide one.

Multi-year use of the MPN

When a school first joins the Direct Loan Program the school is automatically assigned participation in the *multi-year feature* of the MPN. The multi-year feature of the MPN enables student borrowers (and parents who borrow PLUS loans) to get additional loans without having to sign a new MPN each academic year. However, a student attending a school that uses the multi-year feature, has the option of asking to sign a new MPN for each new loan the student receives. The school must honor that request.

Direct Loans originated at your school may incorrectly link to MPNs that were created for the same student at a different Direct Loan school. Your school may want to develop a process for ensuring that loans made by your school are always linked to MPNs associated with loans and students at your school.

Parents who receive Direct PLUS Loans may also use the multi-year feature. However, a PLUS MPN signed by a parent can only be used to borrow for one student. If a parent wants to borrow on behalf of more than one child, the parent must sign a separate MPN for each child. Also, when a parent with an adverse credit history receives a Direct PLUS Loan by getting an endorser, the PLUS MPN automatically becomes a single-loan promissory note, and the parent will have to sign a new MPN for any subsequent loans.

Single-year use of the MPN

A school may choose not to use the multi-year feature of the MPN. Instead, a school can elect to use the *single-year feature*. A school that wants to sign up for the single-year feature should call COD Direct Loan customer service at

800-848-0978

Schools using school-developed promissory notes

Schools may elect to print promissory notes locally. A school-produced promissory note must match the text and format of the ED (OMB approved) MPN. Schools electing **not** to use MPNs printed by ED **must** submit sample promissory notes for review, testing, and approval to:

**COD-Document Testing
P.O. Box 5691
Montgomery, Alabama 36103-5691**

Documents and shipping packages must be marked *For Testing Only*.



Note that a single-loan promissory note is not the same as a single-year note. A single-loan note is good for only one loan.

If an e-MPN is used as a single-year note, more than one loan can be made within an academic year. That is not the case with a single-loan note.

THE DISCLOSURE STATEMENT

A disclosure statement, providing loan-specific information is sent to all borrowers before or at the time of the first disbursement of the proceeds of a Direct Loan. A student disclosure statement can accommodate up to 20 disbursements for each type of student loan (subsidized and unsubsidized). The disclosure statement provides borrowers with information about the –

- types of loans,
- anticipated loan disbursement amounts,
- loan fee rates,
- the amount of the borrower's loan fee,
- anticipated disbursement dates, and
- anticipated net disbursements.

In general, COD prints the disclosure statement and sends it to a borrower at his or her permanent address 30 calendar days before the first anticipated disbursement date reported on the loan origination record for each loan made by the borrower.

Even if loan origination records for a student's Direct Subsidized Loan and Direct Unsubsidized Loan arrive in COD on different days, COD sends a single disclosure statement if –

- both loans have the same first anticipated disbursement date; and
- both loan origination records were processed earlier than 30 calendar days before the first anticipated disbursement date for the loans.

In addition, a school may also provide disclosure statements. If a school chooses to print disclosure statements, the school must also provide a Plain Language Disclosure (**PLD**). A school may send a disclosure statement up to 30 days before the anticipated disbursement date. It must provide the disclosure statements no later than the date it disburses Direct Loan funds.

THE PLAIN LANGUAGE DISCLOSURE (PLD)

A PLD supplements the Borrower's Rights and Responsibilities Statement (BRR) that accompanies a borrower's MPN. A PLD is provided to students (and parents borrowing on behalf of students) who attend schools that use the multi-year feature of the MPN. Since borrowers at these schools don't sign a new promissory note for each loan, a PLD is forwarded with each disclosure statement to remind Direct Loan borrowers of their rights and responsibilities.

A school providing disclosure

statements must use the same format and provide the same information on the disclosures provided by COD. You can find copies of those forms at



<http://www.ed.gov/offices/OSFAP/DirectLoan/brr.html>

SCHOOL RESPONSIBILITIES

A school's responsibilities in the Direct Loan Program begin with meeting and maintaining loan-program-participation requirements. Operational requirements can include –

1. establishing borrower eligibility;
2. originating Direct Loans;
3. counseling students;
4. requesting Direct Loan cash;
5. disbursing Direct Loan cash;
6. reconciling school-based Direct Loan records with records in ED's Direct Loan database;
7. carrying out administrative and fiscal management functions; and
8. closing out each award year.

ESTABLISHING BORROWER ELIGIBILITY

Before informing the business office that a borrower will be receiving a Direct Loan, your financial aid office will have confirmed a borrower's general eligibility for FSA funds and the borrower's general eligibility for a Direct Loan as described in the *Federal Student Aid Handbook, Volume 1 – Student Eligibility*, and chapter 16 of this volume.

A student borrower must also demonstrate financial need to receive any FSA funds except Direct unsubsidized and Direct PLUS loans. (See the *Federal Student Aid Handbook, Volume 3 - Calculating Awards and Packaging* for more information.)



While the business office does not usually report changes in enrollment status and borrower information to ED, when it becomes aware of such changes it must provide them to the school's "Coordinating Official" as described in chapter 10, "Administrative Standards," so that the school office with the reporting responsibility can be informed.

Borrower eligibility, cite

34 CFR 685.200



Consumer Information for Borrowers

Because students are often first-time borrowers, they need to be fully advised on the costs and responsibilities of borrowing.

Accordingly, the law requires that borrowers receive the following information:

- At the same time as the MPN, a Statement of Borrower's Rights and Responsibilities.
- At or prior to the first disbursement, a disclosure statement with specific information about that borrower's loans (usually provided by the lender or the Direct Loan Servicing Center).
- For any subsequent loans provided under an existing MPN, a "Plain Language Disclosure (PLD)" developed by the Department.

ESTABLISHING A CONFIRMATION PROCESS

Borrower confirmation

A crucial step in multi-year use of the MPN is the confirmation process that takes the place of the previous requirement that the borrower sign a new note for each academic year (in Direct Loans) or period of enrollment (in FFEL). Schools must develop and document a confirmation process to ensure that a borrower wants subsequent loans. FFEL schools must work with the lender. The confirmation process may be part of the required notices and disclosures that already exist, or it may be separate and supplement them.

A student must accept, either actively or passively (i.e., through notification), the loan amount offered.

Active confirmation – a school does not disburse the loan until the borrower accepts the proposed loan type and amount or requests changes to the proposed loan package.

Passive confirmation – school does not disburse the loan until the borrower is notified of the proposed loan package. (The notification can come from the school, lender, and/or guarantor.) The borrower only needs to take action if he or she wants to decline the loan or make adjustments to the type or amount of the loan.

For example, your school's award letter may include proposed loan amounts and types. For active confirmation, the student would be asked to accept the loan amount offered by responding to your school's offer. For passive confirmation, the student would be asked to respond only if he or she wanted to cancel or reduce the loan amount offered.

Establishing a confirmation process for Stafford Loans

As long as regulatory requirements and the Department's guidelines are met, schools, lenders, and guarantors are free to establish their own confirmation process—perhaps even a process that combines elements of active and passive confirmation and/or a shared responsibility among the school, lender, and/or guarantor. Schools and the lending community have considerable discretion in setting up these processes, including the timing of confirmation.

For example, confirmation could take place when students apply for aid, when aid is packaged, when loan funds are delivered or disbursed, or at some other appropriate time. The confirmation process could cover the entire loan or, instead, could require that the student confirm each loan disbursement. DCL GEN-98-25 provides examples of each of these confirmation approaches.

The most effective processes will likely vary from school to school and participants are encouraged to use and test various technologies in this process. Some technologies suggested include the Internet, email, card technologies, and voice response.

Generally, schools (in both the Direct Loan and FFEL programs) should use the same confirmation process(es) for all borrowers. However, in some cases a school may want to establish more than one confirmation process in order to accommodate existing administrative procedures, or because the school believes that it can best inform borrowers of their loan obligations if it uses different confirmation processes for different groups of students.

For example, if a school has a policy that requires undergraduates (but not graduate students) to participate in individual counseling sessions before they receive financial aid, it would be reasonable to use the individual counseling sessions to meet the confirmation requirement for undergraduate borrowers, and to establish a different confirmation process for graduate student borrowers.

Regardless of the process(es) used, schools (and lenders in the FFEL Program) must document their confirmation procedures. A school must retain a description of the process(es) in effect for each academic year in which it makes second or subsequent loans under MPNs. The documentation of the process may be kept in paper or electronic format and need not be kept in individual borrower files. The documentation must be kept indefinitely, because it must be submitted to the Department upon request if a borrower challenges the enforceability of a loan.

We recommend that schools include a description of the confirmation process in their student consumer information and policies and procedures manuals just as they do for other school policies, such as their school refund and satisfactory academic progress policies.

ORIGINATING DIRECT LOANS

Once your financial aid office determines a student is eligible to receive a Direct Loan at your school that office (or your school's servicer) will submit award (origination data) and disbursement data to the COD system.

Your school can originate Direct Loan awards as soon as the year's COD system software is active. When your school originates an award it will submit either *anticipated* or *actual* disbursement data. A school that is submitting anticipated data will set the Disbursement Release Indicator (**DRI**) to *False* (in ED Express, *False* is the default setting). When a school wants to submit actual disbursements, it must set the DRI to *True*.

If your school submits anticipated disbursement data, before it can draw down funds, it must later change the anticipated data to actual data. To change anticipated disbursements to actual disbursements, a school first verifies the dates and amounts are correct, and then set the DRI to *True*.

COUNSELING STUDENTS

A school must ensure that first-year, first-time Direct Subsidized/Unsubsidized borrowers have completed entrance counseling before the school disburses Direct loan funds to those borrowers.

All Direct Subsidized/Unsubsidized borrowers are required to complete exit counseling when they leave school or drop below half-time enrollment.

The purpose of loan counseling is to help educate borrowers about the importance of repaying their loans and avoiding default.

Direct Subsidized/Unsubsidized borrowers must participate in entrance and exit counseling. It is your school's choice to offer counseling through the school, or require students to complete ED's online counseling at the Direct Loan Servicing Website.

www.dl.ed.gov

A school must have a process for ensuring that borrowers have completed ED's online counseling.

If your school conducts its own counseling sessions, you may want to order copies of the Entrance and Exit Counseling Guides for Direct Loan Borrowers. These guides include information about the student's options for repayment including repayment plans, and conditions for forbearance, deferment, and cancellation.

You can find a discussion of entrance and exit counseling in chapter 5.

For information on obtaining ED's Entrance and Exit Counseling Guides for Direct Loan Borrowers, see "Publications and How to Order" on the Schools Portal at

fsa4schools.ed.gov

If counseling is conducted by electronic interactive means, the school must take reasonable steps to ensure that each student borrower receives the counseling materials, and participates in and completes the counseling.

REQUESTING DIRECT LOAN CASH

Schools that receive funds through the Pushed Cash funding method do not request funds directly through GAPS. COD pushes funds (automatically sends electronic payments) through GAPS to these schools based on disbursement records submitted and accepted by COD. Similarly, schools on the Reimbursement or HCM2 funding method do not request funds directly through GAPS. These schools receive funds based on disbursement records accepted by COD and approved by a reimbursement analyst.

Schools that receive funds through the Advanced Payment method must request funds directly through GAPS. Advance Pay schools are not required to submit disbursements prior to requesting funds. These schools receive an initial Current Funding Level (CFL) against which they can draw funds. As these schools submit disbursement records that substantiate the school's drawdowns in a timely manner (within 30 days of the disbursement date) the school's CFL will increase to a level that should allow the school to request the funds it needs to make its scheduled Direct Loan disbursements.

Estimating drawdown requests

Before requesting Direct Loan funds, the business office should reconcile (on a student by student basis) the Direct Loan disbursements it anticipates making with the Direct Loan disbursements expected by the Financial Aid Office for the same period. Then, following procedures like those suggested in chapter 13 under *General rules for projecting cash needs*, the school will request the funds it needs to make disbursements to its Direct Loan borrowers.

Note that the amount of funds being requested should be calculated using the anticipated net disbursement amounts (gross - fee + rebate = net). For example, if the gross disbursement amount is \$2,104, the fee is \$84, the rebate is \$32, then the net amount (which should be requested by the school) would be \$2,052.

Questions you might want to consider before submitting your drawdown request include:

1. If your school requests funds based on anticipated disbursements, does this often result in excess cash (funds the school doesn't disburse that have to be returned to ED)?
2. If your school requests funds on the basis of actual disbursements, does *fronting* its own funds until ED forwards the Direct Loan funds put the school in a difficult cash flow position?
3. Does your school look at its historical trends? For example,
 - a. Does your school compare how much it requests to how much it actually spends?

Important

Pushed cash schools must return funds

All funds received by schools receiving funds through the pushed cash method are student specific. They are intended solely for disbursement to the students specified on the "Funded Disbursement Listing" report.

If you do not disburse the funds to the intended recipients (on the Funded Disbursement Listing Report), you must return those funds as excess cash to ED.

An Advance Pay school can either

- estimate their drawdown based on anticipated disbursements, or
- disburse first, and then drawdown funds to replace school funds used.

In the first case, then the reconciliation of anticipated disbursements listed here is still a recommended practice. In the second, it is important that the school calculate any actual disbursements made less any disbursement adjustments for the same period, so that they do not drawdown excess funds

- b. How much did your school request last year at this time?

Was the request sufficient to cover actual disbursements? Was the request more than your school needed to cover disbursements?

- 4. Does your school have a history of having a number of first-time borrowers withdraw within a few weeks of registration resulting in your estimate of the funds you need being too high?

Submitting actual disbursement records

Most schools may submit disbursement data with the DRI set to *True* up to seven days in advance of the intended disbursement date. Before ED sends funds for a Direct Loan to a school on *Pushed Cash*, there must be an origination and MPN accepted for the loan on the COD System.

Schools operating under the Reimbursement or HCM2 monitoring methods may not submit disbursement records before the disbursement date. These schools will receive funds when – (1) the school has made disbursements using the school’s own fund; and (2) the FSA Payment Analyst (PA) has reviewed and accepted the required documentation, and release disbursement records.

The following chart summarizes funding methods and when a school can submit actual disbursements.

Note on Pushed Cash
 Schools participating in Pushed Cash can submit a Disbursement Release Indicator set to “True” up to 7 calendar days prior to the disbursement date. If

- there is an origination on file with the DRI set to “True;” **and**
- an MPN is linked to an award.

If the MPN is rejected, the actual disbursement is rejected. In addition, the COD System will not accept a PLUS actual disbursement unless there is an approved credit decision on file.

Relationship Between Funding Methods and When a School May Submit Actual Disbursements				
	Receives an Initial CFL > 0 before submission of any actual disbursements	Initiates drawdown through GAPS	Actual disbursements can be accepted without accepted promissory notes	Actual disbursements can be accepted up to 7 days before the disbursement date
Advanced Funded	X	School	X	X
Advanced Funded with HCM1 Review Status	X	School	X	X
Pushed Cash		COD		X
Pushed Cash with HCM1 Review Status		COD		X
Pushed Cash with HCM2 Review Status		COD (based on records released from action queue by School Participation)		
Pushed Cash with Reimbursement Review Status		COD (based on records released from action queue by School Participation)		

Timing Drawdown Requests

You should time the submission of your request for Direct Loan funds in order to ensure that they will be disbursed within the three days allowed under the cash management regulations. The chart that follows shows when a school can expect to receive requested funds.

If a School Submits a Request	The School Receives Funds
By ACH/EFT before 3 p.m. Eastern Time	On second business day
By ACH/EFT after 3 p.m. Eastern Time	On second business day
By FEDWIRE before 2 p.m. Eastern Time	On the same business day
By FEDWIRE after 2 p.m. Eastern Time	On the next business day

Receiving Direct Loan Cash

Schools receive funds when GAPS forwards a payment request to the Federal Reserve System. The Federal Reserve System will then wire the funds to the bank account the school has designated to receive FSA funds.

As described in chapter 13, a school is allowed to use a single bank account for all FSA funds, including Direct Loan funds as long as the school can identify and keep track of the funds belonging to the Direct Loan Program. However, ED recommends establishing a separate federal bank account to receive Direct Loan funds. (A separate bank account makes it easier for a school to keep track of and reconcile Direct Loan funds.)

On occasion, the transmission wiring Direct Loan funds to a school does not go through. These are called *unsuccessful transmissions*. Transmissions are unsuccessful when there are technical difficulties, or when a school changes its designated bank account without informing ED.

If a school changes its designated bank account or the account is closed, the school must submit an updated SF1199A (direct deposit form) to ED. The school will not be able to receive additional FSA funds until it submits and ED receives the updated SF1199A.

No matter what the cause, the Department contacts a school whenever it experiences a problem wiring Direct Loan funds.

DISBURSING DIRECT LOAN CASH

Be sure to review chapter 14 for a discussion of the general disbursement requirements for all FSA programs.

After receiving the loan funds from the Department, you will disburse the funds by crediting them to the student's school charges and/or paying the student directly.

The MPN and disbursing Direct Loan cash

Before disbursing Direct Loan funds, a Direct Loan school must confirm that the borrower (student or parent) has completed and signed a promissory note.

Pushed Cash schools must have an accepted and linked MPN and actual disbursements for that award on COD before funds will be pushed to the school. However, Advanced Funded schools may choose to disburse Direct Loan funds to a borrower regardless of whether the school has provided actual disbursement data to COD or received an accepted MPN Response.

Until ED has accepted and linked an MPN (either paper or electronic) to an award, the loan cannot be booked and sent to Servicing. Therefore, **any funds disbursed on an unbooked loan remain a school liability.**

Internal controls and master promissory notes

It is important that Advanced Funded schools that disburse without an accepted/linked MPN verify that disbursements are linked to an MPN in a timely manner, so that the loan can book, liability can devolve from the school to the borrower, and the borrower can be properly notified of amounts owed, interest accumulated, and appropriate repayment information. If MPNs have not been linked/accepted, your school should have procedures for identifying and resolving the outstanding issues.

ED provides two reports to schools that may assist in the identification of unbooked loans. These include the *30 Day Warning Report* and the *Direct Loan School Account Statement (SAS Report)*. The 30 Day Warning Report provides information regarding any element needed by ED to book a loan: the origination, promissory note, and/or initial disbursement (and accepted credit check for PLUS loans). It also provides a list of any accepted MPNs that have not been linked to an award.

Important

The 30-day Warning Report

contains information on loans a school anticipates making beginning 120 days before the anticipated disbursement dates through 30 days following those dates.

Awards with anticipated disbursements will be removed from the report 30 days after the anticipated disbursement date, unless an actual disbursement is received from the school.

In order to continue to follow the student, you may be able to use the student level disbursement data on your Direct Loan School Account Summary (SAS) Report.

The SAS Report contains a list of all unbooked loans with actual disbursements accepted on COD that are missing a valid MPN. If your school is receiving disbursement-level SAS detail, you will see a listing of all unbooked disbursement transactions (both disbursements and adjustments) and amounts for that unbooked loan. If your school is receiving loan-level SAS detail, you will see a listing of all unbooked loans, with a total amount disbursed for that loan. These reports may be used in different ways to identify either: the component needed to book the loan (30 Day Warning); or the detailed unbooked loan transactions that are missing a valid MPN (SAS). For more information on these reports, refer to the COD Technical Reference for the applicable award year (available at fsdownload.ed.gov).

If, when you examine these reports, you find that you have disbursed funds to students whose MPNs have still not been accepted/linked, you can **work with the financial aid office and COD to resolve the outstanding issues and eliminate your school's liability for the disbursed funds.**

Until ED has accepted an origination record, a promissory note, and an actual disbursement (DRI set to True), a school is liable for the funds it has disbursed. If your school chooses to disburse funds and submit the information to ED after the disbursement is made, then your school should have a system for identifying unbooked loans and resolving them.

For example, you could compare a list of those students to whom you have disbursed Direct loan funds to the *Direct Loan 30-day Warning Report* and note those students for whom ED had not yet accepted a disbursement record. If you work at a school making only a few Direct loans, you can do this by hand. If your school processes a large number of Direct Loans, you may want to develop an automated computer process that compares this information and provides exception reports.

If when you make this comparison, you find that you have disbursed funds to students whose disbursement records have still not been accepted, you can **work with the financial aid office and COD to resolve the outstanding issues and eliminate your school's liability for the disbursed funds.**



Important



A school can also use "Disbursement Acknowledgments" received from ED to identify and help resolve unbooked loan issues. These provide information on whether records have been accepted or rejected. If rejected, a reject reason code is provided that will enable the school to research the issue, correct the transaction, and resend the data.

Reporting disbursements

If your school submits anticipated data with its award data, the Disbursement Release Indicator (DRI) is set to *False* when the COD system receives it. To indicate that the student has received an *actual* disbursement, your school must update the DRI status to *True*, and transmit the updated disbursement information electronically to COD.

Most schools may submit actual disbursement data (DRI set to *True*) up to seven days in advance of the intended disbursement date. *All* schools must submit actual disbursement data no later than 30 days after the date a Direct Loan is disbursed. Until ED receives and accepts the actual disbursement, the origination, and an MPN (either paper or electronic), the loan cannot be booked and sent to Servicing. Therefore, any funds disbursed on an unbooked loan are a school liability.

Checking eligibility at the time of disbursement

Your financial aid office certified that a student is eligible when it originated the loan. However, **you must also ensure that the student has maintained continuous eligibility before you disburse the loan.**

The change that most often makes a student ineligible for a disbursement is a reduction in enrollment status to less than half time. Therefore, it is important that your school have a system to verify a student's enrollment status at the time of disbursement.

If a student drops below half time temporarily, you can make disbursements of the loan proceeds if the student resumes at least half-time enrollment. However, you must ensure that the student continues to qualify for the entire amount of the loan (the change in the student's enrollment status may have resulted in a significantly lower cost of attendance). The aid office must document its review of the eligibility of a student whose enrollment changes before funds are disbursed.

If a borrower has transferred from another school, you need to ensure that the student is not in default and has not and will not exceed the annual and aggregate loan maximums. You can confirm this by checking the student's loan history on the NSLDS Web site, or by reviewing the NSLDS loan history section of the ISIR, that has information that is current as of the time the ISIR was processed.

Disbursements, cites

34 CFR 668.164(b)
34 CFR 685.301(b)
34 CFR 685.303(b)
Sec. 428G(a) of the HEA



You must also submit the transfer student's name and identifiers to NSLDS through the *Inform* process, so that NSLDS can notify you of any changes in the student's loan history that might affect eligibility at your school. (See *the Federal Student Aid Handbook, Volume 2 – School Eligibility and Operations*, and *Volume 1 – Student Eligibility* for more information on the Transfer Monitoring Process, and *Volume 3 – Calculating Awards and Packaging* for more information on using the Aggregate Outstanding Principal Balance (**Agg OPB**) in NSLDS to determine if a student has exceeded the aggregate loan limits.)

Processing Direct Loan Funds

Required delay in making disbursements to first-year, first-time borrowers – If a student is in the first year of an undergraduate program and is a first-time Direct Loan borrower, your school may not disburse the first installment of the Direct loan until 30 calendar days after the student's actual attendance in the program of study begins.

Disbursement rules for terms made up of modules – Sometimes students enrolled in a modular program do not attend classes in the first module. The start date for disbursement purposes is the date classes begin for the first attended module. For example, the earliest the school can disburse Direct Loan funds to a first-year, first-time borrower who is scheduled to begin attendance in the second of three 5-week modules that make up the payment period is 30 days after the second module begins.

Late disbursements – If the student established eligibility for payment, and you originated the loan, but the student later becomes ineligible (because the student is no longer enrolled at the school as at least a half-time student for the loan period) you may still be able to make a late disbursement to the student. Please see chapter 14 for a discussion of the conditions for and limitations on late disbursements.

Foreign study exception to 30-day Stafford delay

A loan disbursement can be made to a first-time, first-year borrower within the normal time frame (without waiting 30 days) if the borrower is attending an eligible foreign school, or if the borrower is in a study-abroad program and the home school in the U.S. had a Stafford loan default rate less than 5% (in the most recent fiscal year for which data was available) – 34 CFR 685.303(b)(4)(i)(B).

A late disbursement of a Direct Loan to a student who was enrolled in a series of modules may be prohibited

A school may not disburse the proceeds of a Direct Loan to an ineligible borrower. Therefore, if a student who was enrolled in a series of modules withdraws before beginning attendance as a half-time student, and the student had not received the first disbursement of a Direct loan before withdrawing, the school may not make the first disbursement because the school knows the student withdrew before beginning half-time attendance. The school may not make a late disbursement because the regulation 34 CFR 668.164(g)(3)(iii), that permits a school to make a late disbursement of a Direct Loan for costs incurred to a student who did not withdraw, but ceased to be enrolled as at least a half-time student, does not apply. (The student never really began attendance in the classes needed to make the student half time.)

When a student fails to begin attendance, cite

34 CFR 685.303(b)(3)
34 CFR 685.211(e)(3)



Time frame to disburse or return funds, cite

34 CFR 668.167



Reasons a school might have to return DL funds:

- The student failed to enroll for an enrollment period for which the loan was intended.
- The student failed to meet satisfactory academic progress or other eligibility requirements (for example, completing entrance loan counseling) at the time the loan was due to be delivered.
- The student withdrew during a period for which the loan was intended before the funds were delivered to a student, and the student is not eligible for a postwithdrawal disbursement.
- A return of funds is due to a lender as a result of a return of Title IV funds calculation.
- A student or parent requests a school to return DL Program funds to reduce the borrower's principal loan balance.

When a student who has received Direct Loan funds fails to begin attendance

If a student who received a Direct Loan withdraws or is expelled prior to the first day of classes or fails to begin attendance, the school is required to notify the Direct Loan Servicing Center (DLSC) within 30 days, and return to ED –

- any loan proceeds credited by the school to the student's account; and
- the amount of any and all payments made by the student to the school, to the extent that they do not exceed the amount of any loan proceeds disbursed by the school to the student.

After a school has returned the amount it is required to return:

1. the school makes a downward adjustment in COD reducing the borrower's loan by that amount, and
2. on school stationery, the school mails or faxes a *30-day demand request* to the DLSC, School Support Services who will then demand payment from the borrower.

The request must be on the school's letterhead and must include the –

- a. borrower's name,
- b. borrower's SSN,
- c. date(s) of any disbursements,
- d. last date of attendance (for a borrower who failed to begin attendance, this is the date the borrower was expected to start class), and
- e. balance that remains after the adjustments for what the school returned.

A school mails the request to

**The Direct Loan Servicing Center
School Support Services
501 Bleecker Street
Utica, New York 13501**

Or faxes it to

1-800-848-0984 with a subject line of *30-day demand request*.

When School Support Services receives and reviews the letter, it is forwarded to the Loan Counseling Department for verification of information. After the information is verified, a 30-Day Demand Letter is sent to the ineligible borrower.

The letter will inform the student that he or she was not eligible to receive Direct Loan funds because the student failed to begin attendance, or in some cases, maintain half-time enrollment status before the loan was disbursed. The letter will also state that full payment and interest must be received within 30 days or the loan will default and be transferred to ED's Borrower Services - Collections (Collections).

If no payment is received within 15 days, a second letter is sent by the Loan Counseling Department demanding payment within 15 days of the date of the letter, and indicating that if no payment is received the loan will default and be transferred to Collections.

If a payment is received, Loan Counseling will have the payment credited to the correct disbursement.

Multiple disbursements requirement and exceptions

There are two significant exceptions to the multiple disbursement requirement:

1. If any payment period has elapsed before you make a disbursement, you may make a single disbursement for all completed payment periods.

If a loan is not disbursed by payment periods (i.e., terms), and the student has reached the calendar midpoint, and successfully completed one-half the hours in the loan period, you may make a single disbursement.

2. You may pay a student in an eligible study-abroad program in one disbursement, regardless of the length of the loan period, if your school's most recently calculated Stafford loan default rate is less than 5% for the single most recent fiscal year for which data is available.

Multiple disbursements within a payment period

You can schedule more than two disbursements within a payment period, as long as the disbursements are substantially equal installments.

If a loan is not disbursed by payment periods, no more than one-half the loan proceeds may be disbursed before the student reaches the calendar midpoint of the loan period, and successfully completes one-half the hours in the loan period.

Schools that use payment periods as the basis for their return of funds calculations should note that making multiple disbursements within a payment period does not create a new or additional payment period for use in a Return calculation.

Number of Direct Loan disbursements: standard terms and substantially equal nonstandard terms

If the program uses *standard academic terms* (for example, semester, trimester, or quarter) or it has *nonstandard terms of substantially equal length*, at least one disbursement must be made for each term in the loan period. A program is considered to have substantially equal terms if no term in the loan period is more than two calendar weeks longer than any other term in the loan period.

- *If there is more than one term in the loan period*, the loan must be disbursed over all terms of the loan period. For example, if a loan period includes all three quarters of an academic year, the loan must be disbursed in three substantially equal disbursements.
- *If there is only one term in the loan period*, the loan must be disbursed in equal amounts at the beginning of the term and at the term's calendar midpoint.

Number of Direct Loan disbursements: 1) credit-hour programs without terms, 2) credit-hour programs with non-standard terms that are not substantially equal in length, and 3) clock-hour programs

If the program is one academic year or shorter, the loan period is the length of the program. If the program is longer than an academic year, there will usually be another loan period for any subsequent academic year or remaining portion of an academic year. For each loan period in these programs –

- The loan must be disbursed in at least two substantially equal amounts, with the first disbursement generally disbursed at or near the beginning of the loan period; and
- The second half of the loan proceeds may not be disbursed until the later of either –
 - a. the calendar midpoint between the first and last scheduled days of class of the loan period, or
 - b. the date the student successfully completes half the clock hours in the loan period or, for credit hours, completes half the credit hours. In programs where the student cannot earn the credit hours until the end of the loan period, the school must determine when the student has completed half the coursework for the loan period.

ADMINISTRATIVE AND FISCAL MANAGEMENT FUNCTIONS

Enrollment Reporting with NSLDS and the Roster file

All schools participating (or approved to participate) in the FSA programs **must** have some arrangement to report student enrollment data to the National Student Loan Data System (NSLDS) through a Roster file (formerly called the Student Status Confirmation Report or SSCR). Student enrollment information is extremely important, because it is used to determine if the student is in school, must be moved into repayment, or is eligible for an in-school deferment. For students moving into repayment, the out of school status effective date determines when the grace period begins and how soon a student must begin repaying loan funds.

At scheduled times during the year, not less than semiannually, NSLDS sends Roster files electronically to your school (or its designated servicer) through its SAIG mailbox. The file includes all of the school's students who are identified in NSLDS as Stafford (Direct and FFEL) borrowers (or the beneficiaries of a PLUS loan). The file is not necessarily connected to loans made at your school—you also must report information for students who received some or all of their FSA loans at other schools but are currently attending your school.

Your school (or servicer) must certify the information and return the Roster file within 30 days of receiving it. You may also go to www.nslsdfap.ed.gov and update information for your students online. You're required to report changes in the student's enrollment status, the effective date of the status and an anticipated completion date.

If the Roster file that you are returning contains records that don't pass the NSLDS Enrollment Reporting edits, you will receive a response file with the records that didn't pass. Within 10 days, you'll need to make the necessary corrections to these records and resubmit them. If you are using a servicer, you may need to assist the servicer in correcting these errors. Please remember that your school is ultimately responsible for notifying NSLDS of student enrollment changes.

If your school reports enrollment data to the NSLDS, it does not have to complete SSCRs received directly from guaranty agencies. (Receiving an SSCR report from a guaranty agency may be an indication that your school has not reported to NSLDS within the last six months.) However, you must still respond to requests for borrower information from guaranty agencies, lenders, and loan servicers. You must continue to provide loan holders and loan servicers with a borrower's enrollment status and other information needed to locate the borrower for deferment and other repayment purposes.

Schools must sign up to receive Roster Files through

<https://www.fsawebenroll.ed.gov/PMEnroll/index.jsp>

Enrollment Reporting Requirements

34 CFR 685.309(b)
DCL GEN 96-5
DCL GEN 96-17

Enrollment Reporting/SSCR Technical References

For more information on reporting enrollment information to NSLDS, including record layouts, error codes, etc., see the **Enrollment Reporting Guide** (formerly the SSCR User's Guide), which is available online on the ifap.ed.gov site (listed alphabetically under "Current Publications by Title").

If you will be using the SSCR software package for Enrollment Reporting, see the **SSCR Technical Reference**, which includes record layouts, error codes, etc., and is available in Word and PDF formats at:

www.fsadownload.ed.gov

Updating enrollment information on the Web

You can create or update student enrollment status by using the "Enroll" tab on the NSLDS Web site for aid professionals:

<https://www.nslsdfap.ed.gov/>

Support: **1-800-999-8219**

Providing borrower information at separation

Within 60 days after the exit counseling session, your school must provide the Direct Loan Service Center: the borrower's name; address; references; future permanent address; Social Security Number; the identity and address of the borrower's expected employer, the address of the borrower's next of kin, and the borrower's driver's license number and state of issuance.

Other notifications

Unless it expects to report student enrollment data to NSLDS within the next 60 days, your school must notify the Direct Loan Service Center within 30 days if it discovers that a –

- Direct Subsidized/Unsubsidized Loan or PLUS loan has been made to or on behalf of a student who enrolled at that school, but who has ceased to be enrolled at least half time;
- Direct Subsidized/Unsubsidized Loan or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended; or
- student who is enrolled and who has received a Direct Subsidized/Unsubsidized Loan has changed his or her permanent address.

RECONCILIATION AND CLOSEOUT

In the Direct Loan Program, ensuring that loan and disbursement records substantiate the use of Direct Loan funds is critical to program integrity and fiscal responsibility. Reconciliation and closeout are two processes that substantiate the use of Direct Loan funds and help ensure school compliance with the appropriate regulations.

Reconciliation

Direct Loan schools are required to reconcile all Direct Loan funds received and disbursements made on a monthly basis.

The SAS Report represents the Department's official monthly Ending Cash Balance for a school. We encourage schools to review and compare their internal records to the data contained within the SAS report by –

- comparing the SAS Cash Summary to school cash records;
- comparing the SAS Cash Detail to school accounting records; and
- comparing SAS Loan Detail to school loan records.

In reconciling to the SAS Cash Summary schools should ensure that:

1. at a summary level, the school records match the SAS Cash Summary amounts for individual transaction types (e.g., cash receipts, etc.);
2. if the summary level transactions do not match, that a detailed analysis is performed to identify any discrepancies;
3. the school agrees with the Department's Ending Cash Balance or can explain the differences; and
4. reasons for Ending Cash Balance discrepancies are documented and tracked for resolution in the next month's reconciliation.

In reconciling to SAS Cash Detail schools should ensure that –

1. all drawdowns and refunds of cash are accounted for and applied to the correct year;
2. funds were returned correctly as refunds of cash or payments to Servicing; and
3. funds are not recycled for disbursements in a different award year.

Documents that can assist you in comparing Cash Detail include –

- Cash Detail Comparison Report (DL Tools),
- financial aid office cash report,
- COD Website – Refund of Cash/Cash Activity,
- GAPS Website and reports,
- SAS Cash Detail,
- school’s business office cash report,
- school’s bank statements, and
- school’s cancelled checks.

In reconciling to SAS Loan Detail schools should ensure that all –

1. disbursements and adjustments are accurately reported and accepted by COD;
2. batches have been sent to and accepted by COD;
3. unbooked loans are resolved;
4. rejected records are reviewed and resolved; and
5. related refunds of cash have been returned to the Department according to the guidance provided in DLB-04-01 at

<http://www.ifap.ed.gov/dlbulletins/DLB0406.html/>

Documents that can assist you in comparing Loan Detail include –

- SAS Reports,
- 30-day Warning Reports,
- COD Website,
- DL Tools/SAS Compare Program,
- Booked Status Report (EDExpress or custom),
- Pending Disbursement List, and
- Funded Disbursement List.

COD Customer Relation’s Reconciliation Specialists are available to help your school with the reconciliation process.

Closeout

Direct Loan schools are required to have –

1. a \$0 ending cash balance (total funds received = total disbursements reported); and
2. total Net Unbooked Disbursements of \$0

by the point in the program year known as *Program Year Closeout*, as reflected on the School Account Statement (SAS) Report.

ED encourages schools to include the following simple steps while reviewing their school's internal records and comparing them to the Common Origination and Disbursement (COD) System records –

- ensure all drawdowns and refunds of cash are accounted for and applied to the correct program year;
- ensure all disbursements and adjustments are accurate and have been reported to and accepted by the COD System;
- ensure all batches have been sent to and accepted by the COD System;
- ensure all unbooked loans are resolved;
- resolve all outstanding rejected records; and
- return all refunds of cash to us according to the guidance provided in DLB-04-06.

There are numerous tools available to assist schools in reconciliation and closeout efforts. These tools include –

- SAS Reports;
- 30-day Warning Reports;
- GAPS Web site and reports;
- COD Web site (particularly the Funding Information screen);
- DL Tools/SAS Compare Program; and
- Customer Service Representative/Reconciliation Specialist assistance.

If you require assistance in performing reconciliation or closing a program year, please contact the COD School Relations Center at **800-848-0978** or

codsupport@acs-inc.com

Schools that have remaining balances at closeout are billed for any remaining balance, and a receivable is created by the Department to ensure any excess funds are repaid.

LOAN CONCEPTS FOR THE BUSINESS OFFICE

Capitalizing interest

Capitalizing interest, cite

34 CFR 685.202(b)



Capitalizing interest is adding unpaid, accrued (accumulated) interest to the principal balance of a loan (that is, to the total amount borrowed). During certain periods, borrowers can pay interest on an ongoing basis or allow interest to accrue and capitalize. For example, a Direct Unsubsidized Loan borrower can either pay the interest while he or she is in school or allow the interest to accrue and be capitalized.

Prepayment

Prepayment, cite

34 CFR 685.211(a)



A prepayment occurs when a borrower –

- pays all or part of a loan before a payment is due, or
- pays an amount in addition to the amount required for a monthly payment on the loan.

Direct Loan borrowers can prepay at any time without penalty, that is, without paying an additional charge. If a prepayment amount is less than the monthly payment the borrower owes, ED applies the prepayment first to any accrued charges or collection costs, then to any outstanding interest, and then to outstanding principal.

When a borrower makes a prepayment that equals or is more than the monthly repayment installment amount, ED –

- applies the prepaid amount first to any accrued charges or collection costs, then to any outstanding interest, and then to outstanding principal;
- advances the due date of the next payment, unless the borrower requests otherwise; and
- notifies the borrower of any revised due date for the next payment.

Grace Period

Grace period, cite

34 CFR 685.207(b) & (c)



The grace period is the six-month period before a loan enters repayment. The grace period starts the day after a borrower ceases to be enrolled at least half-time in an eligible school. It ends six months later, on the day before the loan repayment period starts.

During the grace period, Direct Subsidized Loan borrowers are not required to make payments on the loan principal and are not charged interest. Direct Unsubsidized Loan borrowers are not required to make payments on the loan principal, but they are responsible for the interest that accrues during the grace period.

If a student returns to school at least half time before the grace period ends, the student may again postpone loan repayment while in school, and the student will be entitled to a full six-month grace period after terminating enrollment or after dropping below half-time status.

Deferments

Deferment refers to periods during which payments of principal on Direct Loans are postponed. No interest is charged to borrowers on Direct Subsidized Loans during periods of deferment. However, interest accrues and is charged to borrowers of Direct Unsubsidized Loans. Direct Unsubsidized loan borrowers may choose either to pay the interest or to have it capitalized (added to their loan principal).

To receive a deferment, borrowers must request (and be granted) deferments by ED. Borrowers must meet specific eligibility requirements in order to receive a deferment.

Discharge

Under certain conditions, all or a portion of a borrower's loan debt may be cancelled or discharged. Examples of conditions for which discharge may be granted include:

- borrower death or total and permanent disability,
- borrower bankruptcy,
- a closed school,
- a school falsely certifying a loan, and
- a school failing to refund loan proceeds.

Forbearance

Forbearance refers to periods in which borrowers are allowed to –

- temporarily stop making payments,
- extend the time for making payments, or
- temporarily make smaller payments than previously scheduled.

Borrower

An individual to whom a Direct Loan is made.

Co-Maker

One of two married individuals who jointly borrow a Consolidation loan, each of whom are eligible and who are jointly and severally liable for repayment of the loan.

Deferments, cite

34 CFR 685.204



Discharge, cite

34 CFR 685.212



Forbearance, cite

34 CFR 685.205



Default

The failure of a borrower and endorser, if any, to make an installment payment when due, or to meet other terms of the promissory note, if the Department finds it reasonable to conclude that the borrower and endorser, if any, no longer intend to honor the obligation to repay, provided that this failure persists for 270 days.

Endorser

An individual who signs a promissory note and agrees to repay the loan in the event that the borrower does not.

Foreign school

A school not located in a state.