

Direct Loan Origination, Disclosure Statements, and Master Promissory Notes

The purpose of this chapter is to explain how Direct Loan schools and ED's Loan Origination Center (LOC) work together with borrowers (students and parents) to begin processing Direct Loans.

- ◆ The chapter begins with a brief overview that introduces the Direct Loan application process.
- ◆ It then focuses on initial, front-end processes that schools and the LOC perform to:
 - ◇ originate loans,
 - ◇ produce and distribute loan disclosure documents, and
 - ◇ print, distribute, and collect promissory notes (including master promissory notes).

The remaining front-end processes are described in Chapters 7 and 8.

- ◆ Chapter 7 addresses drawing down Direct Loan funds and disbursements.
- ◆ Chapter 8 reviews how schools make and report changes to Direct Loans.



For Your Information

“Front-end” processes refer to activities that take place *before* a loan becomes a legal and binding obligation between the borrower and the U.S. Department of Education (ED).

- These activities, which are the subject of Chapters 6, 7, and 8:
 - are handled primarily by schools and the LOC and
 - take place before a loan is “booked.”
- A loan is booked when the LOC has received and accepted a borrower’s:
 - loan origination record,
 - signed promissory note, and
 - disbursement record.

After a loan is booked, ED's Direct Loan Servicing Center (DLSC) handles the “back-end” processes of servicing the loan. These are discussed in Chapter 12.



Take a Look

See Chapter 2 for details about types of Direct Loans.



Take a Look

See Chapter 3 for an overview of the CPS.



Reference

- *A Guide to SARs and ISIRs*

Overview

Processing Direct Loans begins in one of two ways, depending on the type of loan a borrower is seeking.

- ◆ For Direct Subsidized Loans and Direct Unsubsidized Loans (for students), the process begins when a student files a Free Application for Federal Student Aid (FAFSA).
- ◆ For Direct PLUS Loans (for parents), the process begins when a parent informs a school of his or her interest in obtaining a Direct PLUS Loan.
 - ◇ A parent does not complete a FAFSA to apply for a Direct PLUS Loan.

How Students Request Direct Loans

Students request Direct Subsidized Loans or Direct Unsubsidized Loans. Here is a brief overview of the application process.

- ◆ A student completes an electronic FAFSA/Renewal FAFSA (FAFSA on the Web, Renewal FAFSA on the Web, FAFSA Express, or EDExpress through a school) or a paper FAFSA/Renewal FAFSA and sends it to ED's Central Processing System (CPS).
- ◆ The CPS reviews the student's FAFSA and uses the information to calculate his or her Expected Family Contribution (EFC) to college costs.
 - ◇ The CPS combines the student's data and the EFC results, along with other student eligibility information, into an Institutional Student Information Record (ISIR) and forwards the ISIR electronically to the school(s) selected by the student.
 - ◇ The CPS sends the same information to the student as a Student Aid Report (SAR) or a SAR Information Acknowledgement.

How Parents Apply for Direct Loans

To begin the application process, a parent contacts the postsecondary school that his or her child plans to attend. This part of the process varies from school to school.

- ❖ For example, a school may require a parent to complete an institutional form that collects information that the school does not have on file but that it needs to originate a Direct PLUS Loan. The form may collect information such as:
 - ❖ the parent's name,
 - ❖ Social Security number (SSN),
 - ❖ citizenship status,
 - ❖ loan amount requested, and
 - ❖ authorization to initiate an online credit check.
- ❖ On the other hand, a school might not need to have a parent complete a separate school form because the school already has the necessary information on file from other sources, such as:
 - ❖ the FAFSA (because the student for whom a parent is borrowing is also applying for other Title IV federal student financial aid);
 - ❖ financial aid applications for nonfederal sources of aid, and
 - ❖ information available from the school's admissions office, business office, or registrar's office.

No matter how schools ask parents to begin the application process, any parent borrowing a Direct PLUS Loan must complete and sign a combined application/promissory note.

- ❖ Depending on the school's origination option, either the school or the LOC prints and sends the application/promissory note to the parent.
- ❖ The parent then returns the completed and signed application/promissory note to the organization that sent it (either the school or the LOC).



Take a Look

See page 6-18 for details about schools initiating Direct PLUS Loan credit checks online.



Take a Look

- See page 6-28 for details about Direct Loan promissory notes.
- See Chapter 4 for details about school origination options.

How Schools and the LOC Process Direct Loans

A school begins processing any Direct Loan by determining a Direct Loan applicant's (student or parent) eligibility. The school performs this function using the information described in the previous sections, that is, it uses:

- ◆ the ISIR data to determine a student's eligibility for Direct Subsidized Loans and Direct Unsubsidized Loans and
- ◆ the information collected by the school from a Direct PLUS Loan application/promissory note and other sources to determine a parent's eligibility for Direct PLUS Loans.



Take a Look

- See page 6-6 for details about loan origination records.
- See page 6-16 for details about loan origination record acknowledgments and rejections.
- See page 6-21 for details about disclosure statements.
- See page 6-28 for details about master promissory notes and application/promissory notes.

At this point, school processing is the same for Direct Loans for students (Direct Subsidized Loans and Direct Unsubsidized Loans) and Direct Loans for parents (Direct PLUS Loans).

- ◆ The school creates a loan origination record and sends it to the LOC.
- ◆ When the LOC receives the loan origination record from the school, it takes the following actions:
 - ◇ If the LOC accepts the record, which means that it has all the information needed to originate the borrower's Direct Loan, the LOC sends a loan origination record acknowledgment to the school.
 - ◇ If there is a problem with the loan origination record—for example, information is missing, inconsistent, or incorrect—the LOC rejects the loan origination record and sends the school a loan origination acknowledgment with reject codes that describe the type of error(s) so the school knows what needs to be corrected.
- ◆ The LOC will send a disclosure statement to the student borrower for a Direct Subsidized Loan and Direct Unsubsidized Loan 30 calendar days before the first anticipated disbursement date reported on the loan origination record.
 - ◇ In some instances, the school will give or send a disclosure statement to the borrower at or before the time of the first disbursement.

- ❖ A parent borrower does not receive a disclosure statement for a Direct PLUS Loan.
- ❖ For most Direct PLUS Loans, the LOC conducts a credit check on the parent after it receives and accepts the loan origination record. On a case-by-case basis, schools can initiate a credit check using the LOC's Web-based online process.
 - ❖ The purpose of the credit check is to be sure that the parent does not have an adverse credit history.
 - ❖ In general, a parent with an adverse credit history is not eligible for a Direct PLUS Loan. However, under certain circumstances, it might be possible for the parent to receive the loan. (Chapter 5 discusses adverse credit history and the effect it can have on a parent's eligibility to borrow a Direct PLUS Loan.)
- ❖ The school (or the LOC, depending on a school's origination status) prints and sends a master promissory note (if the borrower is a student and certain conditions exist) or an application/promissory note (if the borrower is a parent and the school has not already had the parent complete and sign it at the beginning of the process).
 - ❖ Neither the school nor the LOC print a master promissory note if all the following conditions exist:
 - ◆ the school is eligible for and chooses to use the multi-year feature of the master promissory note,
 - ◆ the master promissory note on file at the LOC has not expired, and
 - ◆ the borrower has not closed all existing promissory notes.
- ❖ The borrower completes and signs the master promissory note or application/promissory note and returns it to the school or the LOC, depending on which organization sent the promissory note.
 - ❖ If a borrower returns a master promissory note or application/promissory note to the school, the school must forward it to the LOC.



For Your Information

The LOC won't conduct a credit check on a Direct PLUS Loan if, within 90 days of the LOC receiving the loan origination record, the school initiated a credit check using the LOC's online process.



Web site

The Web site for schools to initiate Direct Loan PLUS credit checks is:

- <http://lo-online.ed.gov>



Take a Look

See page 6-18 for details about schools initiating Direct PLUS Loan credit checks online.



Take a Look

See page 6-29 for details about master promissory notes, including information about the multi-year feature, expired promissory notes, and closed promissory notes.



Take a Look

See page 6-63 for details about promissory note acknowledgments.

- ◆ When the LOC receives and accepts a completed and signed master promissory note or application/promissory note, it sends a promissory note acknowledgment to the school.
- ◆ If there is a problem with the master promissory note or application/promissory note—for example, information is missing (such as the borrower’s signature) or incorrect (such as a wrong Social Security number)—the LOC will send it back to the borrower or the school, depending on the origination level of the school.
- ◆ If the LOC returns the master promissory note or application/promissory note to the school, the school contacts the borrower directly to fix the problem.

Loan Origination

Schools work directly with the LOC to originate Direct Loans. The process is entirely electronic and consists primarily of exchanging borrower data.

School Activities

All Direct Loan schools are responsible for originating loans. The Direct Loan origination process is similar to the loan certification process in the FFEL Program. In both cases, schools collect and provide data that show that borrowers are eligible to receive loans.

Schools may not originate Direct Loans for borrowers who do not meet all the eligibility requirements. In addition, a school may not originate:

- ◆ a Direct Subsidized or Unsubsidized Loan that exceeds the annual or aggregate loan limits;
- ◆ a Direct Subsidized, Unsubsidized, or PLUS Loan that exceeds the student’s cost of attendance, less the student’s estimated financial assistance for that period; or
- ◆ a Direct Subsidized Loan that exceeds the student’s calculated financial need.



Laws & Regulations

- 34 CFR 685.301(a)



Laws & Regulations

- 34 CFR 685.301(a)(3)



Take a Look

See Chapter 5 for details about borrower eligibility, including financial need.

A school must check a borrower's eligibility at the time it originates a Direct Loan. Chapter 5 addresses borrower eligibility requirements in more detail.

Refusing to Originate a Direct Loan

A school may refuse to originate a Direct Loan or originate an amount that is less than the borrower's calculated financial need if it:

- ❖ makes the decision on a case-by-case basis;
- ❖ does not engage in any pattern or practice that denies a borrower's access to Direct Loans because of his or her race, gender, color, religion, national origin, age, disability status, or income;
- ❖ documents the reason for the decision;
- ❖ notifies the borrower (student or parent) in writing of the decision; and
- ❖ retains the documentation in the student's file.

Originating Direct Subsidized Loans for \$200 or Less

If a student is eligible for only a \$200 Direct Subsidized Loan or less, a school can choose not to originate the loan for that student. However, the school must include what would have been the Direct Subsidized Loan amount as part of his or her Direct Unsubsidized Loan.

Information Required to Originate a Direct Loan

Direct Loan regulations specify the information needed to originate a Direct Loan. At a minimum, schools must include and send to ED:

- ❖ borrower eligibility,
- ❖ loan amount,
- ❖ anticipated and actual disbursement dates, and
- ❖ disbursement amounts.



Laws & Regulations

- 34 CFR 685.301(a)(7)



Laws & Regulations

- 34 CFR 685.301(a)(6)



Laws & Regulations

- 34 CFR 685.301(a)(2)



Take a Look

See Chapter 7 for details about disbursements.

Schools send this information to the LOC. In addition, schools must store all loan data, including loan origination data, in their own data systems.

Creating Loan Origination Records

Schools originate Direct Loans by creating electronic loan origination records. A loan origination record becomes part of a borrower's permanent loan record in ED's Direct Loan database. It is the foundation for any Direct Loan because without it no other processing can take place. The reason for this is that an LOC-accepted loan origination record is the first of three components needed to "book" a loan.

- ◆ The other two components for booking a Direct Loan are an accepted promissory note (or master promissory note) and disbursement record.

Origination is complete when the loan origination record:

- ◆ is complete and accurate,
- ◆ has been transmitted to and accepted by the LOC, and
- ◆ has identified both a loan amount and an anticipated disbursement date.

Schools send completed (also known as "full") loan origination records to the LOC. The loan origination record has fields for all the information required by Direct Loan regulations. It also collects other information, such as academic year start and end dates. These data help schools and ED properly manage the Direct Loan Program.

The information schools provide on a loan origination record falls into the following categories:

- ◆ demographic information, such as the borrower's name, home address, Social Security number, date of birth, and citizenship status;
- ◆ financial information, such as the loan amount requested and the loan amount approved; and
- ◆ statistical information, such as the student's year in school.



For Your Information

When a loan is booked, an official and legally binding obligation exists between the borrower and ED.



Take a Look

- See page 6-28 for details about promissory notes.
- See Chapter 7 for details about disbursement records.

Direct Loan Origination Record Data Items

| | Student/Borrower Data Items | General Loan Record Data Items |
|----------|---|--|
| F | <ul style="list-style-type: none"> • Student/Borrower’s Social Security number* • Student/Borrower’s name* • Student/Borrower’s address* • Student/Borrower’s home phone number • Student/Borrower’s driver’s license number and state • Student/Borrower’s date of birth* • Student/Borrower’s citizenship status (including alien registration number if eligible noncitizen)* • Student’s college grade level* • Student’s dependency status* | |
| I | <ul style="list-style-type: none"> • Record of defaults on education loan or owing for overpayment on a federal grant* | <ul style="list-style-type: none"> • Loan type (Direct Subsidized, Direct Unsubsidized, Direct PLUS)* • Loan amount requested for Direct PLUS Loan only (cannot be more than loan eligibility)* • Loan amount approved* • Who created record* |
| G | | <ul style="list-style-type: none"> • School code number* • Loan period start date* • Loan period end date* • Academic year start date* • Academic year end date* |
| S | | <ul style="list-style-type: none"> • Loan identifier* • Program year* • Loan sequence number* • Origination record transmit date • Origination fee percentage • Anticipated disbursement date/gross amount/loan fee amount/net amount (one required; up to 20 acceptable)* • Loan origination date • Date/time record created • Last update date/time |

Key to Direct Loan Origination Record Data Items Chart

- F** Data from FAFSA
- I** Data from school (may require manual entry)
- G** Global parameters; data are universally set by Direct Loan system setups and parameters
- S** System-generated; the Direct Loan software calculates the data items
- *** Required for transmitting loan origination record to the Loan Origination Center



For Your Information

The chart on page 6-9 is designed for schools that manage the Direct Loan Program using PCs with ED's free EDEExpress software or a combination of PCs and mainframes.

Schools that use mainframe computers exclusively (referred to as "custom schools") may want to design their own chart because EDEExpress is a software application for PCs and does not run on mainframe computer systems.



Reference

- *Direct Loan Technical Reference*



Web sites

- <http://ifap.ed.gov>
- <http://ed.gov/DirectLoan>
- <http://sfadownload.ed.gov>

In general, the school gets this information from three main sources:

- ❖ the student's FAFSA, which the school receives as an ISIR from the CPS;
- ❖ the school's internal records, which include data collected by the school itself from students and parents; and
- ❖ data generated by the Direct Loan systems.

The chart on the previous page lists the specific data items collected in a loan origination record. It shows which items the school must include for the LOC to accept the record. It also shows the sources for the items.

Systems Options for Creating Direct Loan Origination Records (and Other Direct Loan Records)

As previously stated, the Direct Loan Program requires that schools create loan origination records electronically. However, schools have considerable latitude in how they perform Direct Loan functions, including creating loan origination records and other Direct Loan records, which are discussed in subsequent chapters.

- ❖ An introduction to systems options that schools have begins below.
- ❖ ED's *Direct Loan Technical Reference* provides detailed information on these systems options and how schools can implement them.
 - ❖ The reference is available on ED's Information for Financial Aid Professionals (IFAP), Direct Loan, and SFA Download Web sites.

PC Schools

Schools that operate in PC environments (whether stand-alone PCs or networked PCs) can take advantage of free, ED-provided software, called EDEExpress. Schools also may use software other than EDEExpress to process Direct Loans.

EDExpress is a comprehensive Title IV financial aid management system for schools. It is a student-based system that allows schools to perform such functions as loading and printing ISIRs, computing student award packages, maintaining fund records, tracking file documents, and generating reports. For the Direct Loan Program, PC schools can use EDExpress to:

- ❖ create loan origination records,
- ❖ print promissory notes,
- ❖ manage disbursement data,
- ❖ reconcile funds, and
- ❖ import and export batched records to the LOC.

EDExpress can also capture data from other on-campus systems. As a result, schools can use EDExpress to export and import student data to and from the registrar's office, business office, and admissions office databases. This helps schools with loan origination and other functions, such as drawdowns and disbursements (which are discussed in Chapter 7).

Mainframe Schools (Also Called "Custom Schools")

Many schools rely solely on mainframe computers to administer federal financial aid and related functions, such as admissions, registrar's office, student accounts, and so forth. These schools are often called "custom schools."

EDExpress does not work on mainframe computers because it is PC-based software. However, ED provides mainframe specifications and record layouts in its *Direct Loan Technical Reference*, so schools (or their software vendors) can develop their own Direct Loan software for creating loan origination records and performing other Direct Loan (and other Title IV student aid) functions. Schools can also print the record layouts from the IFAP or SFA Download Web sites.



Take a Look

See Chapter 7 for details about drawdowns and disbursement.



Reference

- *Direct Loan Technical Reference*

Combination Schools

A number of Direct Loan schools use a combination of PCs and mainframe computers to administer the Direct Loan Program. These schools are called “combination schools ” or “combo schools.” They use EDEExpress or other PC-based software for the functions performed by their PCs and customized software created from ED specifications in the *Direct Loan Technical Reference* for the functions performed by their mainframe computers.

Example

Medium-Size University participates in the Direct Loan Program as a combination school.

- ✓ It relies on its mainframe computer to perform most Direct Loan functions, such as creating loan origination records.
- ✓ However, it uses EDEExpress and a PC to import to and export from the LOC batched records through ED’s Student Aid Internet Gateway (SAIG).



For Your Information

SAIG replaced ED’s Title IV Wide Area Network (TIV WAN).

Deciding Which Systems Option is Best

Here are a few questions that should help schools decide which systems option is best for them.

- ◆ How large does the school estimate its Direct Loan volume will be?
 - ◇ Schools with very large loan volumes should consider not relying entirely on PCs and EDEExpress because processing records can take longer when using PCs.
- ◆ How easily can existing school systems be integrated into a Direct Loan system?
- ◆ What resources are available to implement the Direct Loan Program?

- ❖ In answering this question, schools should look at available data-processing staff, as well as staff from other school offices (financial aid office, business office, registrar's office) equipment, and administrative funds.
- ❖ How much time is available to implement each systems option (PC, mainframe, PC/mainframe combination)?
- ❖ Are communications effective among offices that will be involved in administering the Direct Loan Program?
 - ❖ The offices will probably include the financial aid office, business office, registrar's office, and computer center.

Schools that Use Third-Party Servicers

Some schools hire third-party servicers to handle loan origination and other Direct Loan functions. These servicers must have appropriate software and hardware to manage the process. They must also have adequate staffing and quality control procedures to assure that they administer the Direct Loan Program in compliance with federal requirements.

- ❖ This is important because, according to the General Provisions regulations (which apply to all Title IV student aid programs, including the Direct Loan Program), the school and its servicer are jointly and severally liable if the servicer does not comply with federal regulations.



Laws & Regulations

- 34 CFR 668.25



Laws & Regulations

- 34 CFR 685.301(a)(5)



For Your Information

Every week, the LOC sends 30-day warning reports to schools that processed Direct Loans that cannot be booked. These reports show the data required to book each loan, but *do not* include information about subsequent disbursements.

- Schools must query their systems regularly for subsequent disbursements that need to be reported to the LOC.



Take a Look

See Chapter 7 for details about disbursement requirements.

Establishing Official Loan Origination Dates

The date a Direct Loan is officially originated is the date the school creates an electronic loan origination record. (Remember: All Direct Loan origination records are electronic.)

- ◆ Loan origination records must be created and transmitted while the students for whom they are intended are eligible to receive federal aid.
- ◆ Schools must submit the loan origination record, promissory note, and disbursement record to the LOC within 30 days following the date the first disbursement is made.
 - ◇ The LOC must receive and accept all three components to book a loan.
 - ◇ Schools also must submit disbursement records for subsequent disbursements with 30 days of those disbursements.
 - ◇ An adjustment record is considered to be part of a loan's disbursement record and must be submitted within 30 days of the adjustment.

Creating a Direct Loan's Identification Number

A Direct Loan identification (ID) number is established automatically by a school's Direct Loan system (such as EDExpress) whenever the school creates a loan origination record. Each loan has a unique ID.

The loan ID number is created using the following elements on the loan origination record:

- ◆ borrower's Social Security number (SSN),
- ◆ loan type ("S" for Direct Subsidized Loans, "U" for Direct Unsubsidized Loans; "P" for Direct PLUS Loans),
- ◆ program year,
- ◆ school code, and
- ◆ loan sequence number.

Example of a Direct Subsidized Loan ID Number

| | | | | |
|-----------|-----------|--------------|-------------|----------------------|
| 123456789 | S | 01 | G99999 | 001 |
| | | | | |
| SSN | Loan Type | Program Year | School Code | Loan Sequence Number |

Example of a Direct Unsubsidized Loan ID Number

| | | | | |
|-----------|-----------|--------------|-------------|----------------------|
| 123456789 | U | 01 | G99999 | 001 |
| | | | | |
| SSN | Loan Type | Program Year | School Code | Loan Sequence Number |

Example of a Direct PLUS Loan ID Number

| | | | | |
|-----------|-----------|--------------|-------------|----------------------|
| 123456789 | P | 01 | G99999 | 001 |
| | | | | |
| SSN | Loan Type | Program Year | School Code | Loan Sequence Number |

ED's *Direct Loan Technical Reference* provides additional information on Direct Loan ID numbers.



Reference

- *Direct Loan Technical Reference*



Take a Look

- See Chapter 4 for details about school origination options.
- See page 6-28 for details about promissory notes.
- See Chapter 7 for details about disbursements.



Reference

- *Direct Loan Technical Reference*



For Your Information

Beginning in the 2001-02 award year, the LOC will retrieve loan origination records from SAIG mailboxes three times a day.

Transmitting Direct Loan Origination Records

Once a school completes a borrower's loan origination record, the school transmits it to the LOC.

- ❖ If the school is a Standard Origination school or an Origination Option 1 school, the LOC must accept the loan origination record and promissory note before the LOC will request funds from ED for that loan and the school is allowed to make a Direct Loan disbursement to the borrower.
- ❖ An Origination Option 2 school is allowed to draw down funds and disburse loans before transmitting loan origination records to the LOC. However, schools should be cautious about this approach because it can cause confusion, result in LOC-rejected loan records, and delay disclosure statements to borrowers.

If a school transmits a disbursement record before a loan origination record, the LOC will reject the disbursement record. This applies to any school, no matter what its origination option is.

ED's *Direct Loan Technical Reference* provides details about the technical aspects of communication between schools and the LOC. Specifically, it includes information about record layouts, message classes, batches, tracking files, sending and retrieving record and acknowledgment files, acceptance and rejection codes, and so forth.

Loan Origination Center (LOC) Activities

The following sections provide a general description of what the LOC does after a school forwards a loan origination record to it.

Accepting and Rejecting Loan Origination Records

Direct Loan schools forward loan origination records to the LOC through electronic mail boxes that are set up in ED's Student Aid Internet Gateway (SAIG).

- ❖ The LOC retrieves loan origination records from these mail boxes each day at approximately 8 pm (ET).

- ❖ After reviewing each loan origination record, the LOC accepts or rejects it on the basis of computer edits that identify whether the record is complete and accurate. (ED’s *Direct Loan Technical Reference* refers to this procedure as the LOC “processing the data” in the loan origination records.)
- ❖ In general, the LOC returns the processed data to the school through SAIG by 8 am (ET) the next morning.

If the LOC accepts a loan origination record, it includes the loan ID number and borrower loan information in its Direct Loan database. It also sends a loan origination record acknowledgment to the school indicating that the record has been accepted.

If the LOC rejects a loan origination record, the LOC does not keep the loan record in its Direct Loan database. The LOC still sends a loan origination record acknowledgment. However, the acknowledgment contains a rejection code showing that the LOC rejected the loan origination record. The rejection code also indicates the problem that caused the rejection.

Examples of reasons for the LOC rejecting a loan origination record are:

- ❖ incomplete demographic information (such as missing name, address, or alien registration number),
- ❖ inconsistencies in the anticipated disbursement (for instance, the amount of the disbursement is greater than the approved loan amount),
- ❖ incorrect identifying information (such as an invalid school code), and
- ❖ incorrect approved loan amount (for instance, the approved loan amount is greater than the maximum annual loan limit).

The *Direct Loan Technical Reference* has a complete listing of reasons for rejecting a loan origination record. The listing includes the reject codes that schools will find in loan origination acknowledgments for rejected loan origination records.



For Your Information

Although the LOC generally processes data more quickly, it is allowed:

- up to three days to process Direct Subsidized Loans and Direct Unsubsidized Loans and
- up to five days to process Direct PLUS Loans.



Take a Look

See page 6-14 for details about Direct Loan ID numbers.



Reference

- *Direct Loan Technical Reference*

LOC Tips for Avoiding Rejected Loan Origination Records

The LOC has compiled a list of tips for schools that submit loan origination records. To reduce the number of rejected loan origination records and deal effectively with the ones that are rejected, schools should:

- ◆ establish a regular production schedule for all loan processing steps;
 - ◇ These steps are covered in detail in the *Direct Loan Technical Reference*. The loan processing steps include entering data to create loan origination records, batching those records for export to the LOC, transmitting the batched files to the LOC, receiving loan origination acknowledgments from the LOC, and, finally, importing the acknowledgments into the school's Direct Loan system.
- ◆ back up their computer systems regularly and check to be sure the backups can be readily retrieved;
- ◆ maintain a record of the names of the files that are included in each batch of loan origination records forwarded to the LOC;
 - ◇ This will help if there is ever a need to recreate a batch.
- ◆ correct and re-send all rejected loan origination records as quickly as possible to avoid delays in processing loans. (Making changes to Direct Loan records is discussed in Chapter 8.)



Take a Look

See Chapter 8 for details about sending change records to the LOC.



Where to Call

Schools call the LOC at 1-800-848-0978 for help with rejected loan origination records.



Take a Look

See Chapter 5 for details about adverse credit history and other Direct PLUS Loan borrower eligibility requirements.

Schools can call the LOC if they need help handling rejected loan origination records. The toll-free number is 1-800-848-0978.

Conducting Direct PLUS Loan Credit Checks

For Direct PLUS Loan origination records, a credit check must be conducted because a parent who has an adverse credit history generally is not allowed to borrow a Direct PLUS Loan. Chapter 5 defines and lists the effects of adverse credit, including options for borrowing Direct Loans even if a parent has an adverse credit history.

For most Direct PLUS Loans, the LOC conducts a credit check with a national credit bureau after it receives and accepts the loan origination record from the school.

- ❖ If a parent does not have an adverse credit history, the LOC notifies him or her that the credit-check results are favorable.
 - ❖ The LOC also transmits a loan origination record acknowledgment to the school showing that the LOC accepts the record and that the parent does not have an adverse credit history.
- ❖ If a parent has an adverse credit history, the LOC notifies him or her of the reason for the determination.
 - ❖ The notification includes an endorser addendum (to the Direct Loan promissory note) because one way for a parent who has an adverse credit history to borrow a Direct PLUS Loan is by obtaining an endorser without an adverse credit history. The notification also asks the parent to contact the school about how he or she wants to proceed.
 - ❖ The LOC also notifies the school through a loan origination record acknowledgment that the record has been rejected because the parent has an adverse credit history.
- ❖ If the LOC needs to do further research on a credit check, it notifies the school through a loan origination record acknowledgment that a credit decision is “pending.”

By using the LOC’s Web-based online process, on a case-by-case basis, schools can initiate credit checks before forwarding Direct PLUS Loan origination records to the LOC.

- ❖ To use the online credit-check process for a Direct PLUS Loan, a school must obtain *written* authorization from the parent. ED has an authorization form that schools may use for this purpose. The form is on the LOC Web site in a portable document file (PDF), so schools can print out the form for parents to sign.
- ❖ Once the school has the parent’s written authorization, the school logs on to the appropriate page at the LOC Web site and enters the parent borrower’s identifying information.



Take a Look

See Chapter 5 for ways a parent can appeal being denied a Direct PLUS Loan on the basis of his or her adverse credit history.



Web site

The Web site for schools to initiate Direct Loan PLUS credit checks is:

- <http://lo-online.ed.gov>

- ◆ As soon as the school enters the information, the LOC immediately forwards it to an approved credit bureau. As a rule, within 30 seconds, the LOC Web page will display an “accept” or “deny” response from the credit bureau. No other information appears, which means no reasons are given for a “deny” response.
- ◆ Each time a school initiates a credit check, the results are simultaneously forwarded to the LOC, which records and stores the information. The LOC then sends the appropriate letter to the borrower.
- ◆ A school that receives a “deny” response on a credit check has the option of submitting a Direct PLUS Loan origination record to the LOC or allowing a student to borrow a Direct Unsubsidized Loan.
- ◆ If a school sends a Direct PLUS Loan origination record to the LOC more than 90 days after the online credit check is initiated, an additional credit check will be conducted by the LOC when it receives the origination record.

Schools can’t initiate more than one credit check at a time. Further, ED urges schools to be judicious about initiating credit checks.

- ◆ The reason is that each credit check creates a line item on a borrower’s credit history.
- ◆ The LOC tracks school-initiated credit checks. This prevents the LOC from conducting a credit check on a parent if a school has initiated one within 90 days of the LOC receiving a loan origination record.

Disclosures

After the origination process is complete, the LOC or the school sends the student borrower loan-disclosure information. There are two types of disclosures:

- ❖ the “disclosure statement” and
- ❖ the “plain language disclosure.”

Samples of these documents begin on page 6-24.

Parents do not receive these documents because disclosure information for them is provided as part of the Direct PLUS Loan application/promissory note.

The Disclosure Statement

The disclosure statement, which is sent to all student borrowers and can accommodate up to 20 disbursements for each type of student loan (subsidized and unsubsidized), is a document that provides borrowers with information about:

- ❖ loan types,
- ❖ anticipated loan disbursement amounts,
- ❖ loan fee rate,
- ❖ amount of loan fee,
- ❖ anticipated disbursement dates, and
- ❖ anticipated net disbursement amounts.

In general, the LOC prints the disclosure statement and sends it to the student borrower at his or her permanent address.

- ❖ The LOC sends a disclosure statement 30 calendar days before the first anticipated disbursement date reported on the student’s loan origination record.



For Your Information

Revisions to the disclosure statement and the plain language disclosure are not yet final. The new documents will be distributed to schools once they are approved.



Take a Look

- See pages 6-24 through 6-27 for a sample disclosure statement and plain language disclosure.
- See page 6-44 for details about Direct PLUS Loan application/promissory notes.



Reference

- “Dear Colleague” Letter, GEN 99-08
- *Direct Loan Bulletin*, 99-34
- *Direct Loan Bulletin*, 00-11
- *Direct Loan Bulletin*, 00-25



Where to Call

Schools that want to print their own disclosure statements for all borrowers should call the LOC at 1-800-848-0978.

Schools Printing Disclosure Statements

Schools may print and distribute disclosure statements to borrowers on occasion. However, if a school intends to print all of its disclosure statements, it must notify the LOC.

- ◆ Interested schools should contact the LOC for further details at 1-800-848-0978.

A school that distributes disclosure statements is allowed to:

- ◆ print them or
- ◆ enter the information on blank, ED-produced disclosure statements.

In either case, the school must mail or give the disclosure statement to borrowers before or at the time of the first disbursement.

- ◆ The disclosure statement is designed to accommodate up to 20 anticipated disbursements for each loan type (Direct Subsidized Loans and Direct Unsubsidized Loans). (In the past, it could accommodate only four disbursements.)
- ◆ If a student has more than 12 anticipated disbursements on a loan, and the school uses EDEExpress software to print disclosure statements, the LOC—not the school—will print the additional disclosure statement and forward it to the student. (EDEExpress software has a 12-disbursement limitation on printing.)

Loan Detail on the Disclosure Statement

Even if loan origination records for a student's Direct Subsidized Loan and Direct Unsubsidized Loan arrive at the LOC on different days, a single disclosure statement is sent. It includes information about both loans 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.

Multiple Disclosure Statements

If a student borrower applies to more than one school, each school might submit a loan origination record to the LOC. As a result, the borrower could receive multiple disclosure statements.

The disclosure statement provides important information about a borrower's loan. However, it is not a promissory note, and it does not require a borrower's signature. Because of this, a borrower should focus only on the disclosure statement from the school he or she plans to attend and disregard disclosure statements from other schools. If the borrower decides to borrow less than the amount shown on the disclosure statement, he or she should notify the financial aid office at the school he or she will be attending.

Plain Language Disclosure

A plain language disclosure supplements the student borrower's rights and responsibilities statement, which accompanies the master promissory note. It's used for students who attend schools that use the multi-year feature of the master promissory note. Since students at these schools don't sign a new promissory note each year, the plain language disclosure is forwarded with each disclosure statement as a reminder about their rights and responsibilities.

- ◆ Schools that provide disclosure statements also must enclose plain language disclosures.

ED does not have the plain language disclosure available for order.

- ◆ However, using a link in *Direct Loan Bulletin*, 00-11, schools can reproduce the copy of ED's plain language disclosure that's on the Direct Loan Web site.



For Your Information

Important: A school is responsible for adjusting loans to zero for loans originated for borrowers who do not enroll or attend the school.



Take a Look

See Chapter 8 for details about change records and loan adjustments.



For Your Information

Currently, the LOC sends a plain language disclosure to each student borrower along with the disclosure statement. This is done regardless of whether the multi-year feature of the master promissory note is used. Starting in February 2001, the LOC will send a plain language disclosure only when the multi-year feature of the master promissory note is used on the disbursed loan.



Reference

- *Direct Loan Bulletin*, 00-11



Web site

- <http://ed.gov/DirectLoan>



Take a Look

See page 6-29 through 6-43 for information about the master promissory note, including the multi-year feature.

Disclosure Statement

Direct Loans

William D. Ford Federal Direct Loan Program

Borrower Information

1. Name (last, first, middle initial) and Address (street, city, state, zip code)

Rosa A. Trejo
4200 Wilson Blvd.
Arlington, VA 22033

2. Identification Number(s)

111222333S01G99999001
111222333U01G99999001

3. Area Code/Telephone Number
(703) 741-9999

School Information

4. School Name

George Mason University

5. School Address (street, city, state, zip code)

12345 Chain Bridge Road Fairfax, Va 22222

6. School Code/Branch

G99999

Loan Information

7. Loan Period From: MM/DD/YYYY To: MM/DD/YYYY

09/01/1999 05/15/2000
06/01/1999 04/15/2000

8. Date of This Disclosure Statement (MM/DD/YYYY)

05/05/1999

9. The chart below shows anticipated disbursement amounts and dates. Actual amounts and dates may vary. Keep this document for your records.

| Anticipated Disbursement Dates (month/Day/Year) | Loan Amount | Loan Fee Rate | Loan Fee Amount | Net Disbursement Amount |
|---|-------------|---------------|-----------------|-------------------------|
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| Direct 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| Subsidized 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| Loan 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| Total : | \$ | | | |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| Direct 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| Unsubsidized 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| Loan 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| Total: | \$ | | | |

Disclosure Statement (Cont'd.)

THIS DISCLOSURE STATEMENT REPLACES ANY PREVIOUS DISCLOSURES YOU RECEIVED FOR YOUR LOAN(S).

IF YOU HAVE ANY QUESTIONS ABOUT THIS STATEMENT OR YOUR PROMISSORY NOTE, CONTACT YOUR SCHOOL.

The total of the **Loan Amount** for both Direct Subsidized Loans and Direct Unsubsidized Loans is the total principal amount certified by your school on the loan(s) as of the date of this Disclosure Statement. The **Net Disbursement Amount** reflects the amount you will actually receive after loan fees are deducted.

For terms applicable to the loan(s), please refer to the Master Promissory Note and the Borrower's Rights and Responsibilities Statement. **YOU WILL BE NOTIFIED BY YOUR SCHOOL AND BY THE DIRECT LOAN SERVICING CENTER WHEN DISBURSEMENTS ARE MADE. BEFORE DISBURSEMENTS ARE MADE YOU MUST HAVE SIGNED A PROMISSORY NOTE.**

IF YOU DO NOT WANT ALL OR A PORTION OF ANY DISBURSEMENTS REFLECTED ON THIS DISCLOSURE, YOU MAY DECLINE THE LOAN(S) OR REDUCE THE AMOUNT OF THE LOAN(S) BY NOTIFYING YOUR SCHOOL IN WRITING OR BY RETURNING THE FUNDS WITHIN THE FOLLOWING TIMEFRAMES:

IF YOUR SCHOOL CREDITS YOUR LOAN(S) TO YOUR STUDENT ACCOUNT, YOU MAY CANCEL ALL OR A PORTION OF THE LOAN(S) BY INFORMING YOUR SCHOOL WITHIN 14 DAYS AFTER THE DATE YOUR SCHOOL SENDS YOU A DISBURSEMENT NOTICE, OR BY THE FIRST DAY OF THE PAYMENT PERIOD, WHICHEVER IS LATER. (YOUR SCHOOL CAN TELL YOU THE FIRST DAY OF YOUR PAYMENT PERIOD.) YOU MUST RETURN ANY FUNDS RECEIVED WITHIN 120 DAYS OF DISBURSEMENT TO AVOID INCURRING INTEREST CHARGES AND LOANS FEES. (THE LOAN FEE WILL BE REDUCED OR ELIMINATED IN PROPORTION TO THE AMOUNT OF THE DISBURSEMENT RETURNED.)

NOTE: THE INTEREST RATE ON THIS LOAN IS VARIABLE

| Anticipated Disbursement | | Loan Fee | | | |
|--------------------------|-------------|-----------|-----------------|------------------|-----------|
| Dates (month/Day/Year) | Loan Amount | Rate | Loan Fee Amount | Net Disbursement | |
| | 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| | 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| | 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| Direct | 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| Subsidized | 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| Loan | 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| | 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| Total : | | \$ | | | |
| | 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| | 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| | 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| Direct | 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| Unsubsidized | 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| Loan | 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| | 04/01/2000 | \$ 313.00 | 4.00 | \$ 13.00 | \$ 300.00 |
| Total: | | \$ | | | |

Plain Language Disclosure

Direct Loans

William D. Ford Federal Direct Loan Program

William D. Ford Federal Direct Loan Program Direct Subsidized Loans and Direct Unsubsidized Loans

1. General Information – You are receiving a student loan to help you cover the costs of your education. This Plain Language Disclosure (Disclosure) summarizes information concerning your loan. Please read this Disclosure carefully. Throughout this Disclosure, the words “we,” “us,” and “our” refer to the U.S. Department of Education. If you have questions about your loan, contact our Direct Loan Servicing Center. The Direct Loan Servicing Center’s telephone number and address are shown on all of the correspondence you will receive related to your loan.

You must repay this loan, even if you are unhappy with your education, do not complete it, or cannot find work in your area of study. Borrow only the amount you need.

2. Master Promissory Note (MPN) – You are receiving a loan under an MPN that you signed previously. You may receive additional loans under that MPN for up to 10 years if you continue to attend school and if your school is authorized and chooses to make multiple loans under the same MPN. If your school is not authorized or chooses not to make multiple loans under the same MPN, or if you do not want to receive more than one loan under the same MPN, you must sign a new MPN for each loan. If you do not want to receive more than one loan under the same MPN, you must notify your school or the Direct Loan Servicing Center in writing.

3. Loan Terms and Conditions – This Disclosure summarizes information concerning your loan. Please refer to your MPN and the Borrower’s Rights and Responsibilities statement that you received previously for the complete terms and conditions of your loan. If you need another copy of the Borrower’s Rights and Responsibilities statement, contact the Direct Loan Servicing Center. Unless we tell you otherwise in this Disclosure, your MPN and the Borrower’s Rights and Responsibilities statement control the terms and conditions of your loan.

4. Maximum Loan Amounts – There are annual and total (aggregate) limits on the amount you may borrow, as explained in the Borrower’s Rights and Responsibilities statement that you received previously. The amount you borrow each year and in total cannot be more than these limits.

5. Use of Loan Money – You may use your loan money only to pay for educational expenses (for example, tuition, room, board, books) at the school that determined you were eligible to receive the loan.

6. Disbursement of Loan Money – Generally, your school will disburse (pay out) your loan money in more than one installment, usually at the beginning of each academic term (for example, at the beginning of each semester or quarter). If your school does not use academic terms, it will generally disburse your loan in at least two installments, one at the beginning of the period of study for which you are receiving the loan and one at the midpoint of that period of study. Your school may disburse your loan money by crediting it to your school account, or may give it to you directly by check or other means. The Direct Loan Servicing Center will notify you each time your school disburses a portion of your loan money.

7. Change of Status or Address – You must notify both your school and the Direct Loan Servicing Center if you:

- stop attending school,
- drop below half-time enrollment,
- change your address, or
- change your name (for example, maiden name to married name).

In addition, you must notify the Direct Loan Servicing Center if you:

- transfer from one school to another school,
- change employers or if your employer’s address or phone number changes,
- change your telephone number, or
- have any change in status that affects your loan (for example, if you obtain a job and as a result are no longer eligible for an unemployment deferment).

8. Canceling Your Loan – Before your loan money is disbursed, you may cancel all or part of your loan at any time by notifying your school. After your loan money is disbursed, there are two ways to cancel all or part of your loan:

- You may notify your school that you want to cancel all or part of your loan within 14 days after the date your school notifies you that it has credited the loan to your account or by the first day of your school’s payment period, whichever is later. (Your school can tell you the first day of the payment period.)
- You can return all or part of your loan to us at any time within 120 days of the date your loan money is disbursed. Contact the Direct Loan Servicing Center for guidance on how and where to return your loan money.

9. Loan Fee – We charge a loan fee on your loan of up to 4 percent. The loan fee will be subtracted from your loan amount. If you cancel or return all or part of your loan within 120 days of the date your loan money is disbursed, no loan fee will be charged on the amount that you cancel or return.

10. Interest – The interest rate on your loan is a variable rate which can change each year on July 1. As a result, your interest rate may change annually, but it will never be more than 8.25%. We will notify you of the interest rate formula and the actual interest rate for each loan that you receive.

We do not charge interest on Direct Subsidized Loans while you are attending school, during your grace period, and during deferment periods. We charge interest on Direct Subsidized Loans during all other periods (starting on the day after your grace period ends), including forbearance periods.

We charge interest on Direct Unsubsidized Loans during all periods. This includes periods while you are attending school, during your grace period, and during deferment and forbearance periods. Therefore, you will pay more interest on Direct Unsubsidized Loans than on Direct Subsidized Loans.

You are responsible for paying the interest on the unpaid amount of your loan, as explained above. If you do not pay the interest, we will add it to the unpaid amount of your loan. This process is called capitalization. Capitalization increases the unpaid amount of your loan, and we will then charge interest on the increased amount.

11. Grace Period – You will receive a 6-month grace period that starts the day after you stop attending school or drop below half-time enrollment. You do not have to begin making payments on your loan until after your grace period end.

Plain Language Disclosure (Cont'd.)

12. Repayment – You must repay each loan that you receive according to the repayment schedule provided by the Direct Loan Servicing Center. You must begin repaying your loan after your grace period ends. The amount of time you have to repay your loan (the repayment period) will vary from 10 to 30 years, depending on the repayment plan that you choose and the total amount you have borrowed. You may choose one of the following repayment plans:

- Standard Repayment Plan
- Extended Repayment Plan
- Graduated Repayment Plan
- Income Contingent Repayment Plan

These plans are designed to give you flexibility in meeting your obligation to repay your loan. The Borrower's Rights and Responsibilities statement that you received previously explains the terms and conditions of each repayment plan. You may change repayment plans at any time after you have begun repaying your loan. You may make loan payments before they are due, or pay more than the amount due each month, without penalty. When you have fully repaid a loan you agree that the Direct Loan Servicing Center does not have to send you the original MPN but may instead send you a letter telling you that you have paid off your loan. You should keep this letter in a safe place.

13. Late Charges and Collection Costs – We may require you to pay a late charge if you do not make any part of a payment within 30 days after it is due. We may also require you to pay other charges and fees involved in collecting your loan.

14. Deferment – After you have begun making payments, you may, under certain circumstances, receive a deferment that allows you to temporarily stop making payments on your loan. For example, you may receive a deferment while you are attending school at least half-time or for up to 3 years while you are unemployed. For a complete list of deferments, refer to the Borrower's Rights and Responsibilities statement that you received previously. To request a deferment, contact the Direct Loan Servicing Center.

We do not charge interest on Direct Subsidized Loans during deferment periods. However, we do charge interest on Direct Unsubsidized Loans during deferment periods.

15. Forbearance – A forbearance allows you to temporarily make smaller payments or temporarily stop making payments on your loan. If you cannot make your scheduled loan payments but do not qualify for a deferment, we may give you a forbearance. For example, we may give you a forbearance if you are temporarily unable to make scheduled loan payments because of financial hardship or illness. We may also give you a forbearance under other conditions as described in the Borrower's Rights and Responsibilities statement that you received previously. To request a forbearance, contact the Direct Loan Servicing Center.

We charge interest on both Direct Subsidized Loans and Direct Unsubsidized Loans during forbearance periods.

16. Loan Consolidation – You may consolidate (combine) all of your federal education loans into one loan. Consolidating your loans gives you up to 30 years to pay them back and may lower your monthly payments. That may make it easier to repay your loans. Because you make payments for a longer period of time, you will pay more interest if you consolidate your loans. Contact the Direct Loan Servicing Center for more information about loan consolidation.

17. Loan Discharge – We will discharge (forgive) your loan if:

- we receive acceptable documentation that you died or became totally and permanently disabled,
- you cannot complete your course of study because your school closes, or
- your school falsely certified your eligibility to receive a loan.

We may also discharge your loan up to the amount of any refund that your school should have returned to us, but did not return. We will not automatically discharge your loan if you file for bankruptcy.

In some cases, you may not have to repay your loan if you claim, as a defense against repayment, that your school did something wrong or failed to do something that it should have done. You can make such a defense against repayment only if what your school did or did not do could result in legal action being taken against the school under state law. If you believe that you have a defense against repayment of your loan, contact the Direct Loan Servicing Center.

18. Credit Bureau Reporting – We will report information about your loan to one or more national credit bureaus. This information will include the disbursement dates, amount, and repayment status of your loan (for example, whether you are current or behind schedule in making payments).

19. Demand for Immediate Repayment – We will require you to immediately repay the entire unpaid amount of your loan (on your MPN this is called "acceleration") if you:

- receive loan money but do not enroll at least half-time at the school that certified your eligibility to receive the loan,
- use your loan money to pay for anything other than educational expenses at the school that determined you were eligible to receive the loan,
- make any false statement that causes you to receive a loan that you are not eligible to receive, or
- default on your loan.

20. Default – You are in default on your loan if you:

- do not repay the entire unpaid amount of your loan if we require you to do so,
- have not made a payment on your loan for at least 270 days, or
- do not comply with other terms and conditions of your loan, and we conclude that you no longer intend to honor your obligation to repay your loan.

If you default on your loan, we will report that fact to all national credit bureaus. We may sue you, take all or part of your federal tax refund, and/or garnish your wages so that your employer is required to send us part of your salary to pay off your loan. We will require you to pay reasonable collection fees and costs, plus court costs and attorney fees. You may face other serious consequences.



Laws & Regulations

- 34 CFR 685.301(c)



For Your Information

This section focuses on promissory note processes that result from schools originating Direct Loans for students and parents to pay for postsecondary school. It does not address Direct Consolidation Loans.

- Direct Consolidation Loans combine borrowers' federal education loans into a single loan to make repayment easier.
- The LOC and the Direct Loan Servicing Center (DLSC), not schools, manage the origination and application/promissory note processes for Direct Consolidation Loans.
- Chapter 2 addresses these processes.



Take a Look

- See Chapter 2 for details about basic Direct Loan components, such as borrowing limits, interest rates, repayment terms, and so forth.
- See Chapter 4 for details about origination options.
- See Chapter 7 for details about loan disbursement.
- See Chapter 12 for details about the DLSC.

Promissory Notes

To obtain a Direct Subsidized Loan or a Direct Unsubsidized Loan, a student signs a master promissory note. For a Direct PLUS Loan, a parent signs an application/promissory note.

In general, after a school creates a loan origination record, the school or the LOC (depending on the school's origination option) prints a promissory note and sends it to the borrower (student or parent) to complete and sign.

- ◆ After the borrower completes and signs the note, he or she returns the promissory note to the organization that sent it (either the school or the LOC).
- ◆ If the borrower sends the promissory note back to the school, the school is responsible for forwarding it to the LOC.

The promissory note is the second of three components required to book a loan. As stated at different points in this guide, a loan is booked when the LOC receives and accepts:

- ◆ a loan origination record,
- ◆ a completed and signed promissory note, and
- ◆ a disbursement record.

At the point that a loan is booked, a legal and binding obligation is created between the borrower and ED. This is also the point in the Direct Loan process when ED's Direct Loan Servicing Center (DLSC) takes over from the LOC. The DLSC handles "back-end" processes, such as repayment and collections. More information about these back-end processes is in Chapter 12.

In general, promissory notes (and accompanying borrower rights and responsibilities) contain information about:

- ◆ interest rates;
- ◆ repayment terms, such as when repayments begin, how long the borrower has to repay the loan, minimum monthly payments, and so forth;

- ❖ deferment, forbearance, and cancellation provisions; and
- ❖ late charges.

Master Promissory Note (for Direct Subsidized Loans and Direct Unsubsidized Loans)

In the past, students signed new promissory notes for each loan they borrowed. Depending on circumstances, there were even times when students had to sign more than one promissory note in a single academic year.

- ❖ ED moved to a master promissory note during the 1999-2000 academic year so students could sign just one note in an academic year.
- ❖ Beginning in 2000-01, ED broadened the use of the master promissory note to allow students attending approved schools to obtain multiple loans over multiple academic years without signing a new note.
 - ❖ Currently, four-year schools and graduate/professional schools are approved to use the multi-year feature of the master promissory note.
- ❖ A sample master promissory note begins on page 6-41.

ED has prepared a plain language pamphlet, *The Inside Scoop for Borrowers: The Master Promissory Note for Direct Loan Borrowers*, to help schools explain the master promissory note process to students.

- ❖ Schools can order the pamphlet by calling the LOC at 1-800-848-0978.
- ❖ *Direct Loan Bulletin*, 00-36, has more information about ordering the pamphlet.



Reference

- “Dear Colleague” Letter, GEN 99-08
- *Direct Loan Bulletin*, 99-14
- *Direct Loan Bulletin*, 00-05
- *Direct Loan Bulletin*, 00-11



Take a Look

- See page 6-30 for details about ED approval to use the master promissory note’s multi-year feature.
- See page 6-41 for a sample of the master promissory note.



Where to Call

Call 1-800-848-0978 for copies of *The Inside Scoop for Borrowers: The Master Promissory Note for Direct Loan Borrowers*.



Reference

- *Direct Loan Bulletin*, 00-36



For Your Information

The master promissory note is often called by its acronym, "MPN."



Take a Look

See page 6-21 for details about disclosure statements.



For Your Information

- Origination Option 1 schools and Origination Option 2 schools have the authority to print, distribute, and collect master promissory notes from student borrowers.
- Standard Origination schools do *not* have this authority. The LOC must do it for them.



Laws & Regulations

- 34 CFR 685.402(f)

The master promissory note provides the following advantages:

- ❖ An LOC-accepted (valid) master promissory note can be used for up to ten years from the date of the first anticipated disbursement, as long as an actual disbursement has been made within 12 months of the first anticipated disbursement.
- ❖ All student certification and authorization fields are on the front page of the master promissory note, which makes it easier to complete the form.
- ❖ All loan information certified by the school has been moved to the disclosure statement, streamlining the master promissory note.
 - ❖ The information that is on the disclosure statement includes loan type, anticipated disbursement amounts, loan fee rate, amount of loan fee, anticipated disbursement dates, and anticipated net disbursement amounts.
- ❖ ED has simplified print specifications for Origination Option 1 schools and Origination Option 2 schools so that aligning promissory notes in school printers can be done more easily and scanning the data at the LOC is more accurate.
- ❖ The master promissory note does not print a loan dollar amount. Instead, it has a statement in Item 8 that informs students of their right to cancel loans or request a lower loan amount. Item 8 also lets students know where to find information about how to reduce or cancel loans that they have already received.
 - ❖ Because the master promissory note doesn't print a loan dollar amount, schools can change loan amounts without borrowers signing new master promissory notes.
 - ❖ A school also can change the distribution between Direct Subsidized Loans and Direct Unsubsidized Loans without a new master promissory note.

Schools Approved to Use the Multi-Year Feature of the Master Promissory Note

The regulations governing the multi-year feature of the master promissory became effective on July 1, 2000 with the 2000-01 academic year.

- ❖ Currently, four-year schools and graduate/professional schools are authorized to use the multi-year feature if they:
 - ❖ are not subject to an emergency action or limitation, suspension, or termination (LS&T), and
 - ❖ meet any other performance criteria that ED establishes.

ED does not send written authorization to schools informing them of their eligibility to use the multi-year feature of the master promissory note. A school can assess whether it meets ED’s current requirements for using the multi-year feature of the master promissory note by referring to its Eligibility and Certification Approval Report (ECAR).

- ❖ ED sends the ECAR to a school with its Program Participation Agreement (PPA) whenever the school is certified or recertified to participate in Title IV federal student aid programs.
- ❖ Page A-2 of the ECAR has an item called “Highest Educational Program Offered.” A school is eligible to use the multi-year feature of the master promissory note if this item shows one of the following:
 - ❖ master’s degree or doctor’s degree,
 - ❖ first professional degree,
 - ❖ professional certification, or
 - ❖ bachelor’s degree.

Eligible schools can originate and disburse Direct Subsidized Loans and Direct Unsubsidized Loans on the basis of LOC-accepted master promissory notes from previous academic years.

- ❖ This is the case even if the original master promissory note was signed when a student attended another Direct Loan school.
 - ❖ As long as the LOC has a valid master promissory note on file, it doesn’t matter whether the other school was eligible to use the multi-year feature.



For Your Information

In addition to four-year and graduate schools, regulations allow ED to authorize other schools to use the multi-year feature of the master promissory note if they:

- are not subject to emergency action or limitation, suspension, or termination (LS&T); and
- meet other ED criteria or are “designated at... [ED’s] sole discretion...”



Reference

- *Direct Loan Bulletin*, 00-05



For Your Information

For the LOC to “link” multiple Direct Subsidized Loans and Direct Unsubsidized Loans to a master promissory note, the loan origination record and the master promissory note must have the same:

- Social Security number,
- date of birth, and
- first name.

Examples of When Schools Can Use the Multi-Year Feature of the Master Promissory Note

Example 1:

In 1999-2000, Melinda was a freshman at Nation College (NC). NC is a four-year, undergraduate school that is eligible to use the multi-year feature of the master promissory note.

- ✓ Melinda signed a master promissory note to borrow Direct Loans for 1999-2000.
- ✓ For her sophomore year (2000-01), she didn't need to sign a new master promissory note because the LOC had the original one on file, and NC is eligible to use the multi-year feature of the master promissory note.

Example 2:

Melinda transferred to Big State University in her junior year (2001-02). She still doesn't need to sign a new master promissory note because:

- ✓ the one from her freshman year (1999-2000) is valid and
- ✓ Big State is eligible to use the multi-year feature of the master promissory note.

Example 3:

Melinda's brother, George, went to a local community college, which is not eligible to use the multi-year feature of the master promissory note. George signed a master promissory note for a Direct Loan to pay for his first year at the community college. Because the college is not eligible to use the master promissory note's multi-year feature, George would have to sign another master promissory note to receive a Direct Loan for his second year at the community college.

- ✓ But, George decides to transfer to Big State University in his second year to follow in his sister's footsteps.
- ✓ He doesn't need to sign a new master promissory note to get a Direct Loan because:
 - ✓ the LOC has a valid master promissory note on file from the community college, and
 - ✓ Big State is eligible to use the multi-year feature of the master promissory note.

Here are few processing tips for the master promissory note:

- ❖ For students attending a 1999-2000 summer term who have used four disbursements, create a new 1999-2000 loan origination record so the LOC can link it to the existing master promissory note.
- ❖ For 2000-01, the LOC's loan origination acknowledgment to the school will confirm whether a student has an existing master promissory note from 1999-2000. It also will provide a master promissory note ID number for the new loan.
- ❖ For transfer students, check students' ISIRs or the National Student Loan Data System (NSLDS) to see if they received 1999-2000 Direct Loans and, therefore, signed for the loans using master promissory notes.
- ❖ For a significant number of borrowers, sending loan origination records to the LOC is the only way to be certain that it has valid master promissory notes. For more details, review *Direct Loan Bulletin*, 00-11.
- ❖ Beginning in 2001-02, students' ISIRs will have a field noting whether the LOC has a valid Direct Loan master promissory note on file.

When a school is eligible to use the master promissory note's multi-year feature, the school's eligibility applies to all students attending the school, even students who are *not* enrolled in four-year or graduate/professional programs.

- ❖ However, an eligible school can choose to limit the use of the multi-year feature.
- ❖ For example, a school can require baccalaureate candidates to sign new master promissory notes each academic year, while allowing graduate students to obtain multiple loans for multiple academic years by signing only one master promissory note.
- ❖ For students that the school decides shouldn't use the multi-year feature, the school needs to prevent loans for new academic years from being "linked" by the LOC to a previous master promissory note.



Reference

- *Direct Loan Bulletin*, 00-11



For Your Information

Important: A student must have at least one *booked* loan for the student's ISIR to show a valid Direct Loan master promissory note on file at the LOC.



For Your Information

Students have the option of *not* using the master promissory note's multi-year feature.

- Even if a student is attending a school that is eligible for the master promissory note's multi-year feature, he or she can decide to sign a new master promissory note each academic year.
- A student who doesn't want to receive more than one loan under the same master promissory note must contact the school's financial aid office or the Direct Loan Servicing Center (DLSC) in writing.



Take a Look

See page 6-63 for details about the promissory note acknowledgments.



Reference

- *Direct Loan Bulletin*, 00-20

- ❖ To prevent a loan from being linked to a previous master promissory note, the school:
 - ◆ first, forwards the student’s master promissory note for each academic year to the LOC;
 - ◆ then, waits to receive a promissory note acknowledgment from the LOC showing a pending status; and
 - ◆ finally, transmits the student’s loan origination record for that academic year.

Eligible schools can opt out entirely of the master promissory note’s multi-year feature for *all* students attending the school.

- ❖ According to *Direct Loan Bulletin*, 00-20, schools deciding to opt out must submit their request to ED in writing on official school letterhead. Once ED receives the request, the LOC will process Direct Loans as if a new master promissory note is required for each academic year.
- ❖ If, at a future time, the school decides to use the multi-year feature of the master promissory note, it must send another letter to ED asking to participate in the master promissory note’s multi-year feature.
- ❖ The address to request opting in or opting out of the multi-year feature is:

U.S. Department of Education
Student Financial Assistance
Direct Loan Operations/Schools Channel
400 Maryland Avenue, SW
ROB - 3, Room 5036
Washington, DC 20202-5162

Schools Not Approved or Schools/Students Choosing Not to Use the Multi-Year Feature of the Master Promissory Note

A student borrower must sign a new master promissory note for each academic year if the student:

- ❖ attends a school that isn't eligible or chooses not to use the multi-year feature of the master promissory note, or
- ❖ decides not to use the multi-year feature of the master promissory note, even if he or she attends a school that is eligible and uses the multi-year feature.

In either case, a student borrower does not need to sign a new master promissory note for additional loans *during the same academic year*.

Reasons for Signing More Than One Master Promissory Note

A student borrower must sign more than one master promissory note under the following circumstances:

- ❖ The student is enrolled in a school that isn't eligible for or chooses not to use the master promissory note's multi-year feature, and the student is receiving a loan for a new academic year.
- ❖ The student transfers to a school that isn't eligible for or chooses not to use the master promissory note's multi-year feature.
- ❖ The student transfers from a school that participates in the Federal Family Education Loan (FFEL) Program, and the LOC does not have a valid Direct Loan master promissory note on file.
- ❖ The student chooses to "close" his or her master promissory note, so it can't be used for additional loans.
 - ❖ Only student borrowers have the authority to close their master promissory notes.
 - ❖ To close a master promissory note, a student must inform the DLSC in writing that he or she does not want additional loans made under that note.



For Your Information

Once the DLSC receives a letter from a borrower with instructions to close a master promissory note, the DLSC forwards the instructions to the LOC to prevent new loans from being linked to that note.

- If a school receives a letter from a borrower to close a master promissory note, the school should forward the letter directly to the LOC.

- ❖ While no new loans can be linked to a closed master promissory note, all disbursements and other activities necessary to book loans that were linked to the master promissory note before it was closed will be processed.
- ❖ The master promissory note has “expired.”
- ❖ A master promissory note expires when:
 - ◆ a year has elapsed after the date of the first anticipated disbursement without an actual disbursement, or
 - ◆ more than ten years have elapsed since the date of the first anticipated disbursement for that note.
- ❖ While no new loans can be linked to an expired master promissory note, all disbursements and other activities necessary to book loans that were linked to the master promissory note before it expired will be processed.

Loan Adjustments

There are some changes that may occur during an academic year for which a school may adjust a loan amount instead of originating a new loan. Loan adjustments do not require a student to sign a new master promissory note, even if the student attends a school that isn't eligible to use the multi-year feature of the master promissory note.

Schools can adjust loan amounts during an academic year to address a change in:

- ❖ student's financial need,
- ❖ grade level,
- ❖ loan period,
- ❖ dependency status,
- ❖ enrollment, or
- ❖ amount that a student requests.

Chapter 8 addresses loan adjustments.



Take a Look

See Chapter 8 for details about loan adjustments.

Master Promissory Note Identification (ID) Number

As mentioned earlier in this chapter, each Direct Loan has a unique loan identification (ID) number. The loan ID is created as part of the origination process and consists of the borrower's Social Security number (SSN), loan type ("S" for subsidized and "U" for unsubsidized), school code, and loan sequence number.

- ❖ For 1999-2000, the master promissory note ID for a Direct Subsidized Loan or Direct Unsubsidized Loan is the same as the loan ID.
- ❖ Beginning in 2000-01, the master promissory note ID is different from the loan ID. Instead of an "S" or "U" in the loan-type field, an "M" appears in the loan-type field.



Take a Look

See page 6-14 for more information about loan IDs.

Example of a Master Promissory Note ID Number

123456789

SSN

M

Loan Type

01

Year

G99999

Direct Loan
School Code

- ❖ If the multi-year feature of the master promissory note is used, the master promissory note ID does not change for subsequent loans associated with the note, even though each loan will have its own unique loan ID.



Laws & Regulations

- 34 CFR 685.402(f)(3)



Reference

- “Dear Colleague” Letter, GEN-98-25

Confirmation Process

Schools that use the multi-year feature of the master promissory note must develop and document a confirmation process.

- ❖ The confirmation process must be in compliance with ED guidelines.
- ❖ At this writing, ED is directing schools to use “Dear Colleague” Letter, GEN-98-25, to develop their confirmation processes.
- ❖ The confirmation process can be active or passive.

The purpose of the confirmation process is to have student borrowers accept, either actively or passively, the proposed loan amount for each loan they are scheduled to receive.

The confirmation process can be part of required notices and disclosures that already exist, or it can be separate and supplement them.

For active confirmation, a student is notified by the school about his or her proposed loan package (loan type and amount). Then, the student must take action to:

- ❖ accept (or confirm) the proposed loan type and/or amount, or
- ❖ request changes to the proposed loan type and/or amount.
- ◇ Examples of active confirmation include the school:
 - ◆ requiring a signed award letter as an acknowledgment from a student or
 - ◆ documenting an electronic message to a student using a mechanism, such as a personal identification number (PIN).

For passive confirmation, a school notifies a borrower of the proposed loan package. The borrower is required to take action only if he or she wants to decline or make adjustments to the types or amounts of the loans.

- ❖ Examples of passive confirmation include the school:
 - ◇ sending an award letter that doesn’t require a signature or
 - ◇ sending the disclosure statement.

Using Different Confirmation Processes

In general, ED believes that schools should use the same confirmation process for all student borrowers. However, schools have the option to establish more than one confirmation process. Reasons for a school deciding to use different confirmation processes are:

- ❖ accommodating internal administrative procedures, or
- ❖ using the most effective methods for informing different groups of students about their loan obligations.

Example of a School Using Different Confirmation Processes

Effective University (EU) uses different confirmation processes for its undergraduate students and graduate students to support EU's loan counseling program.

- ✓ For its undergraduate students, EU uses an active confirmation process that is part of its annual individual counseling sessions.
 - ✓ All undergraduates students who borrow must attend a counseling session and sign a loan confirmation form before receiving financial aid for the academic year.
 - ✓ EU believes this approach provides borrowers with the most information about and control over their loan debt and helps keep cohort default rates low.
- ✓ For its graduate students, EU uses a passive confirmation process.
 - ✓ It consists of sending students award letters for the academic year.
 - ✓ EU believes this is sufficient because most of its graduate students have teaching or research fellowships, borrow very little, and rarely default on their education loans.

Confirmation Documentation Requirements

A school must retain a description of its confirmation process(es) for each academic year that it makes subsequent loan disbursements using the master promissory note. The description must be in a paper or electronic format.

- ◆ ED recommends that the description of a school's confirmation process be included in its student handbook or other publication that explain a school's financial aid policies to students.
- ◆ Individual student files do not need to include the description.
- ◆ Schools must retain this documentation indefinitely.

If a borrower challenges the enforceability of a subsequent loan that was made using the multi-year feature of the master promissory note, ED requires the school to submit in paper or electronic format the description of the confirmation process(es) in effect for the academic year in which the loan was made.

Direct Loans

William D. Ford Federal Direct Loan Program

Master Promissory Note William D. Ford Federal Direct Loan Program

WARNING: Any person who knowingly makes a false statement or misrepresentation on this form shall be subject to penalties which may include fines, imprisonment, or both, under the U.S. Criminal Code and 20 U.S.C. 1097.

OBM No. 1845-0007
Form Approved
Exp. Date 08/31/2002

Federal Direct Stafford/Ford Loan
Federal Direct Unsubsidized Stafford/Ford Loan

Section A: To Be Completed By The Borrower

| | |
|---|----------------------------|
| 1. Driver's License State and Number | 2. Social Security No. |
| 3. E-mail address | |
| 4. Name and Address (street, city, state, zip code) | 5. Date of Birth |
| ← Last, First, M.I. | 6. Area Code/Telephone No. |

7. References: You must list two persons with different U.S. addresses who have known you for at least three years. The first reference should be a parent or legal guardian.

| | | |
|----------------------------|-----------|-----------|
| Name | 1. _____ | 2. _____ |
| Permanent Address | _____ | _____ |
| City, State, Zip Code | _____ | _____ |
| Area Code/Telephone Number | () _____ | () _____ |
| Relationship to Borrower | _____ | _____ |

8. Requested Loan Amount: I request a total amount of subsidized and unsubsidized loans under this Master Promissory Note not to exceed the allowable maximums under the Higher Education Act. My school will notify me of type(s) and amount(s) of loan(s) that I am eligible to receive. I may decline a loan or request a lower amount by contacting my school. Additional information about my right to cancel or reduce my loan is included in the Borrower's Rights and Responsibilities statement and Disclosure Statements that have been or will be provided to me.

Section B: To Be Completed By The School

| | | |
|----------------------------|------------------------|------------------------|
| 9. School Name and Address | 10. School Code/Branch | 11. Identification No. |
|----------------------------|------------------------|------------------------|

Borrower Certifications and Authorizations *Read carefully before signing below.*

- 12.** I declare under penalty of perjury that the following is true and correct:
- I certify that the information I have provided on this Master Promissory Note and as updated by me from time to time is true, complete, and correct to the best of my knowledge and belief and is made in good faith.
 - I certify that I will immediately repay any loan proceeds that cannot be attributed to educational expenses for attendance on at least a half-time basis at the school that certified my loan eligibility.
 - I certify that I do not now owe a refund on a Federal Pell Grant, Supplemental Educational Opportunity Grant, or a State Student Incentive Grant and that I am not now in default on any loan received under the Federal Perkins Loan Program (including NDSL loans), the Federal Direct Loan Program (Direct Loans), or the Federal Family Education Loan Program (FFELP) or, I have made satisfactory repayment arrangements on the defaulted loan.
- 13.** For all Direct Subsidized and Direct Unsubsidized Loans (as described in the additional Note provisions and the Borrower's Rights and Responsibilities statement) I receive under this Master Promissory Note, and for certain other loans as described below, I make the following authorizations:
- I authorize my school to certify my eligibility for loans under this Master Promissory Note.
 - I authorize my school to credit my loan proceeds to my student account.
 - I authorize my school to pay to the U.S. Department of Education (ED) any refund that may be due up to the full amount of the loans.
 - I authorize ED to investigate my credit record and report information concerning my loan status to persons and organizations permitted by law to receive such information.
 - Unless I notify ED differently, I request and authorize ED to: (i) during the in-school and grace periods of any loans made under this Note, defer and align the repayment of principal on all of my Direct Loans that are in repayment status; and (ii) add interest which I must pay that accrues on all my Direct Loans to the principal balance of such loans ("capitalization") including such loans made under this Note during periods of forbearance and, for unsubsidized loans, during in-school, grace, and deferment periods, as provided under the Act. "Capitalization" will increase the principal balance on my loans and the total amount of interest cost I incur.
 - I authorize the release of information pertinent to my loans: (i) by the school and ED, to the references on the applicable loans and to members of my immediate family unless I submit written directions otherwise; and, (ii) by and among my schools, lenders, guarantors, the U.S. Department of Education, and their agents.

Promise to Pay

14. I promise to pay to the U.S. Department of Education all sums disbursed (hereafter "loan" or "loans") under the terms of this Master Promissory Note (hereafter "Note"), plus interest and other charges and fees that may become due as provided in this Note. **I understand that multiple loans may be made to me under this Note.** I understand that by accepting any disbursements issued at any time under this Note, I accept the obligation to repay the loans. I understand I may cancel or reduce the amount of any loan by refusing to accept or by returning all or a portion of any disbursement that is issued. I may pay interest that accrues on my Federal Direct Unsubsidized Stafford/Ford Loans during in-school, grace, and deferment periods, or may allow it to accumulate and be added to the principal balance of such loans. If I fail to make any payment on any loan made under this Note when due, I will also pay reasonable collection costs, including but not limited to attorney's fees, court costs, and other fees. I will not sign this Note before reading it, including the writing on the reverse side, even if otherwise advised. I am entitled to an exact copy of this Note and the Borrower's Rights and Responsibilities statement. My signature certifies I have read, understand, and agree to the terms and conditions of this Note, including the Borrower Certifications and Authorizations printed above, the Notice on the reverse side, and the accompanying Borrower's Rights and Responsibilities statement.

I UNDERSTAND THAT I MAY RECEIVE ONE OR MORE LOANS UNDER THIS MASTER PROMISSORY NOTE, AND THAT I MUST REPAY SUCH LOAN(S).

15. Borrower's Signature _____ 16. Today's Date (Month/Day/Year) _____

Additional Note Provisions follow

Master Promissory Note (continued)

DISCLOSURE OF LOAN TERMS

This Note applies to both Federal Direct Stafford/Ford Loans (Direct Subsidized Loans) and Federal Direct Unsubsidized Stafford/Ford Loans (Direct Unsubsidized Loans) described in the Interest section below. I agree that each loan is separately enforceable based on a true and exact copy of this Note. Loans disbursed under this note are subject to the annual and aggregate loan limits specified in the Higher Education Act of 1965, as amended, 20 U.S.C. 1070, *et seq.*, and applicable U.S. Department of Education (ED) regulations (collectively referred to as the "Act").

Under this Note, the principal amount that I owe, and am required to repay, will be the sum of all disbursements issued (unless I reduce or cancel any disbursements as provided below).

At or before the time of the first disbursement for each loan, a disclosure statement will be issued to me identifying the amount of the loan and additional terms of the loan. Important additional information is also disclosed in the Borrower's Rights and Responsibilities statement accompanying this Note. The Borrower's Rights and Responsibilities statement and any disclosure statement I receive in connection with any loan under this Note are hereby incorporated into this Note.

I may request additional loan funds for my educational costs (up to the annual and aggregate loan limits) from my school. If my school determines that I am eligible for any additional or adjusted loan amount my school may certify such amount.

My eligibility for Direct Subsidized Loans and Direct Unsubsidized Loans may change based on changes in my financial circumstances. My school will notify me of any changes in my eligibility. I will be notified of changes or additions to my Direct Subsidized Loans and Direct Unsubsidized Loans in a separate disclosure statement.

LOAN CANCELLATION

I may pay back all or a portion of a disbursement within time frames set by the Act and identified in the Borrower's Rights and Responsibilities statement or other disclosure statement I receive at or before disbursement. In such case, the loan fee will be reduced or eliminated in proportion to the amount of the disbursement returned. I will not incur interest charges if I return the full loan amount as provided in the Act.

INTEREST

Unless ED notifies me in writing of a lower rate(s), the rate(s) of interest for my loans are those specified in the Act. The rate is presented in the Borrower's Rights and Responsibilities statement accompanying this Note or in another disclosure that is issued to me.

Interest accrues on the unpaid principal balance of each loan from the date of disbursement until the loan is paid in full. I agree to pay all interest charges on my Direct Subsidized Loans. I agree to pay all interest charges on my Direct Unsubsidized Loans. If I fail to make required payments of interest before the beginning or resumption of principal repayment, or during a period of deferment or forbearance, I agree that ED may capitalize such interest, as provided under the Act. There is no federal interest subsidy on unsubsidized loans, so the total amount of interest I am required to repay on unsubsidized loans will be higher than on subsidized loans.

LOAN FEE

A loan fee is charged for each Direct Subsidized Loan and Direct Unsubsidized Loan equal to the amount required by the Act. I will pay such fee as identified in the disclosure statement, which will be deducted proportionately from each disbursement of my loans. I understand the loan fees may be refundable only to the extent permitted by the Act.

LATE CHARGES AND COLLECTION COSTS

ED may collect from me: (i) a late charge for each late installment payment if I fail to make any part of a required installment payment within 30 days after it becomes due, and (ii) any other charges and fees that are permitted by the Act for the collection of my loans. If I default on any loans, I shall pay reasonable collection fees and costs, plus court costs and attorney fees.

REPAYMENT

I am obligated to repay the full amount of the loans made under this Note and accrued interest. Direct Subsidized and Unsubsidized Loans have a repayment grace period of 6 months. I will repay the principal of my loans in periodic installments during repayment periods that begin on the day immediately following the end of the applicable grace period. Payments submitted by me or on my behalf (exclusive of refunds) will be applied first to charges and collection costs that are due, then to accrued interest that has not been capitalized, and finally to the principal amount. I understand that the School's certification of my loan eligibility determines whether my loans must be repaid as subsidized and/or unsubsidized Direct Loans.

The Direct Loan Servicing Center will provide me with a repayment schedule that identifies my payment amounts and due dates. **Direct Loan repayment information is covered in the Borrower's Rights and Responsibilities statement.**

If I am unable to make my scheduled loan payments, ED may allow me to reduce my payment amount, to extend the time for making payments, or to temporarily stop making payments as long as I intend to repay my loan. Allowing me to temporarily delay or reduce loan payments is called forbearance.

I agree that ED may align payment dates on my loans or may grant me forbearance to eliminate a delinquency that persists even though I am making scheduled installment payments.

I may prepay all or any part of the unpaid balance on my loans at any time without penalty. If I do not specify which loans I am prepaying, ED will determine how to apply the prepayment in accordance with the Act. Upon repayment in full of each loan under this Note, I agree to accept written notification of such loan payoff in place of receiving the original Note.

ACCELERATION AND DEFAULT

At the option of ED, the entire unpaid balance of the applicable loans shall become immediately due and payable upon the occurrence of any one of the following events: (i) I fail to enroll as at least a half-time student at the School that certified my loan eligibility, (ii) I fail to use the proceeds of the loans solely for educational expenses, (iii) I make a false representation(s) that results in my receiving any loans for which I am not eligible, or (iv) I default on the loans.

The following events shall constitute a default on my loans: (i) I fail to pay the entire unpaid balance of the applicable loans after ED has exercised its option under items (i), (ii), and (iii) in the preceding paragraph; (ii) I fail to make installment payments when due, provided my failure has persisted for at least 270 days; or (iii) I fail to comply with other terms of the loans, and ED reasonably concludes I no longer intend to honor my repayment obligation. If I default, ED may capitalize all the outstanding interest into a new principal balance, and collection fees will become immediately due and payable.

If I default, the default will be reported to all national credit bureau organizations and will significantly and adversely affect my credit history. I acknowledge that a default shall have additional adverse consequences to me as disclosed in the Borrower's Rights and Responsibilities statement. Following default, the loans may be subject to income-contingent repayment (including potential collection of amounts in excess of the principal and interest) in accordance with the Act.

GOVERNING LAW AND NOTICES

The terms of this Note will be interpreted in accordance with the Higher Education Act of 1965, as amended (20 U.S.C. 1070 *et seq.*), and other applicable federal statutes and regulations.

Any notice required to be given to me will be effective if mailed by first class mail to the latest address ED has for me. I will immediately notify ED of a change of address or status as specified in the Borrower's Rights and Responsibilities statement.

Failure by ED to enforce or insist on compliance with any term on this Note shall not be a waiver of any right of ED. No provision of this Note may be modified or waived except in writing. If any provision of this Note is determined to be unenforceable, the remaining provisions shall remain in force.

Notice: Applicable to Loans Received After the Initial Enrollment Period

This Master Promissory Note authorizes ED to disburse multiple loans during the multi-year term of this Note upon my request and upon the school's certification of my loan eligibility.

Subsequent loans may be made under this Note for subsequent periods of enrollment only at four-year or graduate schools, or other schools, as designated by the Secretary of the U.S. Department of Education. I agree that no subsequent loans will be made under this Note after the earliest of the following dates: (i) the date ED receives my written notice that no further loans may be disbursed under the Note;

(ii) one year after the date of my first anticipated disbursement on this Note if no disbursement is made during such twelve month period; or (iii) ten years after the date of the first anticipated disbursement made under this Note.

Any amendment to the act governs the terms of any loans disbursed on or after the effective date of such amendment, and such amended terms are hereby incorporated into this Master Promissory Note.

Direct Loans

William D. Ford Federal Direct Loan Program

Master Promissory Note William D. Ford Federal Direct Loan Program Instructions and Notices

OMB No. 1845-0007
Form Approved
Exp. Date 08/31/2002

Federal Direct Stafford/Ford Loan Federal Direct Unsubsidized Stafford/Ford Loan

Instructions for Completing Promissory Note

This is a Master Promissory Note under which you may receive multiple Direct Subsidized Loans and Direct Unsubsidized Loans over a maximum ten year period.

Section A: To Be Completed By The Borrower

Use blue or black ink ball point pen or typewriter. Do not complete this form in pencil.

Section A must be completed by the student who is applying to be a borrower of a Federal Direct Stafford/Ford Loan (Direct Subsidized Loan) and/or a Federal Direct Unsubsidized Stafford/Ford Loan (Direct Unsubsidized Loan). Items 1 and 2 and Items 4 through 6 may have been preprinted on the Promissory Note by the school certifying your loan, if you provided this information on your Free Application for Federal Student Aid (FAFSA). You should review all the questions and responses and enter information for any items that are not preprinted. Cross out any incorrect information and print the correct information. Incorrect or incomplete information may cause your loan to be delayed.

All references to "you" mean the student borrower.

Item 1: Enter the two-letter abbreviation for the state that issued your current driver's license followed by the driver's license number. If you do not have a current driver's license, enter the letters "N/A."

Item 2: Enter your nine-digit Social Security Number. If this item has been completed for you, review it for correctness. If it is incorrect, cross out the entire incorrect number and print the entire correct Social Security Number in this box. Your loan(s) cannot be processed without your Social Security Number. Read the Privacy Act and the Financial Privacy Act Notices below before completing this item.

Item 3: Enter your e-mail address if you have one.

Item 4: Enter your last name, then your first name and middle initial. Enter your permanent street address, apartment number, city, state, and zip code.

Item 5: Enter the month, day, and four-digit year of your birth. Use only numbers. Be careful not to enter the current year.

Item 6: Enter the area code and telephone number for the address listed in Item 1. If you do not have a telephone, enter "N/A."

Item 7: Enter the requested reference information for two adults who do not share a common address. The first reference should be a parent or legal guardian. References with addresses outside the United States are not acceptable. Provide relationship of references to you.

Item 8: Your school will notify you of the amount of Direct Subsidized and Direct Unsubsidized Loans you are eligible to receive for this and subsequent academic periods. You may decline a loan or request a lower amount by contacting your school. Additional information is included under "Loan Cancellation" in the Borrower's Rights and Responsibilities statement.

Items 12, 13, and 14: Read these items carefully.

Items 15 and 16: After reviewing the terms of the Promissory Note, you must sign your full legal name, in blue or black ink, and enter the date you signed this Promissory Note.

By signing, you:

A) Acknowledge that you have read, understand, and agree to the provisions in the Master Promissory Note including the Borrower Certifications and Authorizations and the Borrower's Rights and Responsibilities statement.

B) Agree to repay the loan(s) in full according to the items and conditions in the Master Promissory Note.

Section B: To Be Completed By The School

These three items must be completed by the school.

Important Notices

Privacy Act Notice

The Privacy Act of 1974 (5 U.S.C. 552a) requires that the following notice be provided to you. The authority for collecting the information requested on this form is §451 *et seq.*, of the Higher Education Act of 1965, as amended. Your disclosure of this information is voluntary. However, if you do not provide this information, you cannot be considered for a Direct Subsidized Loan and/or Direct Unsubsidized Loan made under the William D. Ford Federal Direct Loan (Direct Loan) Program. The principal purposes for collecting this information are to process your Direct Subsidized Loan and/or Direct Unsubsidized Loan, to document your agreement to repay this loan, and to identify and locate you if it is necessary to enforce this loan. The information in your file may be disclosed to third parties as authorized under routine uses in the Privacy Act notices called "Title IV Program Files" (originally published on April 12, 1994, Federal Register, Vol. 59, p. 17351) and "National Student Loan Data System" (originally published on December 20, 1994, Federal Register, Vol. 59, p. 65532). Thus, this information may be disclosed to federal and state agencies, private parties such as relatives, present and former employers and creditors, and contractors of the Department of Education for purposes of administration of the student financial assistance programs, for enforcement purposes, for litigation where such disclosure is compatible with the purposes for which the records were collected, for use by federal, state, local, or foreign agencies in connection with employment matters or the issuance of a license, grant, or other benefit, for use in any employee grievance or discipline proceeding in which the Federal Government is a party, for use in connection with audits or other investigations, for research purposes, for purposes of determining whether particular records are required to be disclosed under the Freedom of Information Act and to a Member of Congress in response to an inquiry from the congressional office made at your written request.

Because we request your social security number (SSN), we must inform you that we collect your SSN on a voluntary basis, but section 484(a)(4) of the HEA (20 U.S.C. 1091(a)(4)) provides that, in order to receive any grant, loan, or work assistance under Title IV of the HEA, a student must provide his or her SSN. Your SSN is used to verify your identity, and as an account number (identifier) throughout the life of your loan(s) so that data may be recorded accurately.

Financial Privacy Act Notice.

Under the Right to Financial Privacy Act of 1978 (12 U.S.C. 3401-3421), ED will have access to financial records in your student loan file maintained in compliance with the administration of the Direct Loan Program.

Paperwork Reduction Notice.

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a currently valid OMB control number. The valid OMB control number for this information collections is 1845-0007. The time required to complete this information collection is estimated to average 1.0 hour (60 minutes) per response, including the time to review instructions, search existing data resources, gather and maintain the data needed, and complete and review the information collection. **If you have any comments concerning the accuracy of the time estimate(s) or suggestions for improving the form, please write to:** U.S. Department of Education, Washington, DC 20202-4651. **If you have any comments or concerns regarding the status of your individual submission of this form, write directly to:**

School Relations
U.S. Department of Education
Loan Origination Center
P.O. Box 5692
Montgomery, Alabama 36103-5692

Application/Promissory Note (for Direct PLUS Loans)

Parents are allowed to borrow Direct PLUS Loans. To obtain a Direct PLUS Loan, a parent must complete and sign a combined application/promissory note.

The Direct PLUS Loan application/promissory note:

- ◆ collects demographic information about the student and the borrower, such as the borrower's (parent's) permanent address and the permanent address of the student for whom he or she is borrowing,
- ◆ states the loan amount for the loan period, and
- ◆ requires the borrower's signature.

The promissory note ID for a Direct PLUS Loan is the same as its loan ID.

A parent has to complete a new application/promissory note:

- ◆ for each loan period (often an academic year) and
- ◆ whenever the amount he or she wishes to borrow increases.

However, a new promissory note is not needed if:

- ◆ a school or the LOC (depending on the school's origination option) has not yet printed the application/promissory note, or
- ◆ the Direct PLUS Loan amount decreases.
 - ◇ Reasons why the loan amount might decrease are:
 - ◆ a parent might decide to borrow less than the amount on the application/promissory note or
 - ◆ the school finds the parent is eligible for less than the amount on the application/promissory note.



For Your Information

The loan period may be a semester or some other length of time, but it may not be more than an academic year.



Take a Look

See Chapter 4 for details about origination options.

Borrower Activities

To obtain Direct Subsidized Loan, Direct Unsubsidized Loan, or a Direct PLUS Loan, a borrower must sign a promissory note.

- ❖ Students (Direct Subsidized Loan borrowers and Direct Unsubsidized Loan borrowers) complete and sign master promissory notes.
- ❖ Parents (Direct PLUS Loan borrowers) complete and sign combined application/promissory notes.

For the remainder of this chapter, unless stated otherwise, the term “promissory note” refers to both master promissory notes and application/promissory notes.

The promissory note is the document that makes a borrower legally responsible for repaying his or her Direct Loan. To be a legal and binding document, a borrower must complete the promissory note correctly and sign it. If not, the LOC won't accept the promissory note. This prevents a loan from being “booked” (becoming an official and binding obligation between the borrower and ED).

To assure that the LOC accepts a promissory note, a borrower (student or parent) must:

- ❖ complete the Direct Loan promissory note in black or blue ink;
- ❖ sign the promissory note in black or blue ink;
 - ❖ Signatures cannot be faxed, stamped, photocopied, or signed in pencil.
- ❖ cross out any error made on the promissory note, correct it, and initial the correction; and
- ❖ return the properly completed and signed promissory note to the organization that sent it (school or LOC).
 - ❖ The LOC address is on the back of the promissory note.



Take a Look

See page 6-29 for details about master promissory notes for Direct Subsidized Loans and Direct Unsubsidized Loans.



For Your Information

To book a Direct Loan, the LOC must receive and accept:

- a loan origination record,
- a completed and signed promissory note, and
- a disbursement record.

Chapter 7 has details about disbursement requirements, including time frames for submitting records for subsequent disbursements.



For Your Information

Standard-Origination-school borrowers mail their promissory notes to:

School Relations
U.S. Department of Education
Loan Origination Center
P.O. Box 5692
Montgomery, AL 36103-5692

Borrowers Who are Minors

If a borrower of a Direct Subsidized Loan or a Direct Unsubsidized Loan is a minor (less than 18 years old), he or she may sign a promissory note without an endorser or other security. Furthermore, the borrower is obligated to repay the loan without regard to any state law that deals with minors taking on debt.

Borrowers Who Need Endorsers

If a Direct PLUS Loan borrower requires an endorser, the endorser completes and signs an endorser addendum to the Direct PLUS Loan promissory note. The endorser addendum obligates the endorser to repay the Direct PLUS Loan if the borrower does not. The LOC mails the endorser addendum with a letter to the Direct PLUS Loan borrower when a credit check results in an adverse credit history.

School Activities

A properly completed and signed promissory note is a prerequisite for a school to disburse Direct Loan funds. While no school can disburse Direct Loan funds without a borrower completing and signing a promissory note, the specific activities that a school undertakes in this part of the Direct Loan process depends on whether it is:

- ◆ a Standard Origination school,
- ◆ an Origination Option 1 school, or
- ◆ an Origination Option 2 school.

Chapter 4 provides in-depth information about school origination options.



Take a Look

See Chapter 5 for details about Direct PLUS Loan eligibility requirements, including situations that require endorsers.



Laws & Regulations

- 34 CFR 685.301(b)(1)



Take a Look

See Chapter 4 for details about school origination options.

Standard Origination Schools

For a Standard Origination school, the LOC prints, distributes, and collects Direct Loan promissory notes from the school's borrowers. A Standard Origination school does not perform these activities.

More information about the LOC's activities in the Direct Loan promissory note process begins on page 6-59.

Origination Option 1 Schools and Origination Option 2 Schools

Origination Option 1 schools and Origination Option 2 schools:

- ❖ print promissory notes,
- ❖ send promissory notes to borrowers,
- ❖ collect completed and signed promissory notes from borrowers, and
- ❖ forward completed and signed promissory notes to the LOC.

However, if they choose, Origination Option 1 schools and Origination Option 2 schools can have the LOC perform any or all of these promissory note functions. A school that wants to have the LOC perform any of these functions writes to ED with its request.

Example

An Origination Option 2 school's computer center is too busy to be timely in preparing borrowers' promissory notes. The school decides to have the LOC print the promissory notes and send them to the school to distribute and collect from borrowers. This way the school:

- ✓ removes an administrative responsibility that it would prefer not to handle, but
- ✓ continues to keep close track of when borrowers are returning the promissory notes.



Take a Look

See page 6-59 for details about the activities that the LOC performs.



Take a Look

See Chapter 4 for details about transferring administrative responsibilities to the LOC



For Your Information

The school can use the loan origination record to request that the LOC print promissory notes.

To transfer administrative functions to the LOC, Origination Option 1 schools and Origination Option 2 schools write to ED at:

U.S. Department of Education
Case Management & Oversight
Data Management & Analysis
Document Receipt & Control
Center
P.O. Box 44805, L'Enfant Plaza
Station
Washington, DC 20026-4805
(Attn: Direct Loan School
Selection)

The remainder of this section explains what Origination Option 1 schools and Origination Option 2 schools do if they choose to print, send, collect, or forward Direct Loan promissory notes.

Printing Direct Loan Promissory Notes

Origination Option 1 schools and Origination Option 2 schools can:

- ◆ use blank promissory notes ED supplies and that schools complete manually;
- ◆ automatically print promissory notes with borrower-specific information; or
- ◆ request that the LOC print borrower-specific promissory notes.



Reference

- *Direct Loan Bulletin*, 00-11

ED-supplied, blank promissory notes. Schools can request blank promissory notes from ED. They are free. Schools order the notes through the LOC. ED published ordering information in *Direct Loan Bulletin*, 00-11.

School-printed promissory notes. Schools have several options for printing their own borrower-specific promissory notes.

For example, a school that manages the Direct Loan Program using PCs or a combination of PCs and mainframe computers can print its own notes using EDEExpress software and blank ED-supplied promissory notes (without labels).

- ◆ EDEExpress is software for PCs that ED developed for schools to help them manage the Title IV federal student aid programs, including the Direct Loan Program. ED offers EDEExpress free to schools.
- ◆ EDEExpress has a default setting that automatically prints two copies of ED-approved promissory notes for borrowers.
 - ◆ One copy is for the borrower to keep; the other is for the borrower to complete, sign, and return to the school.
 - ◆ When a school receives a completed and signed promissory note, the school forwards it to the LOC.



For Your Information

A school can change the default setting in EDEExpress to print as many promissory notes as it chooses.

- ❖ The school is not required to keep a copy of the signed promissory note, although ED highly recommends that schools do so.

Alternatively, a school can use institutionally or privately developed software created on the basis of ED specifications in the *Direct Loan Technical Reference*. School-developed or vendor-developed software can:

- ❖ print on blank promissory notes supplied by ED or
- ❖ print the entire note itself.

A mainframe school can:

- ❖ use blank promissory notes supplied by ED (with or without labels) or
- ❖ print entire notes itself (including the legal information).

There are two restrictions for a school that creates promissory notes using this type of software:

- ❖ First, the software must print the entire promissory note in a way that is identical in format and wording to notes printed by ED and EDExpress.
- ❖ Second, the LOC must review and approve the promissory note before a school can use it.
 - ❖ The promissory note that a school sends to the LOC for approval must include sample data.
 - ❖ It must also be an original. Photocopies or faxed copies are not acceptable.
 - ❖ As already indicated, a school may not change the format or wording of the promissory note.
 - However, it may add a bar code, which some schools use for internal tracking purposes.
 - Adding a bar code does not require pre-approval by ED; however, the bar code cannot be placed in the bottom margin of the note, which is reserved for use by the LOC.



Reference

- *Direct Loan Technical Reference*



For Your Information

Schools requesting approval for promissory notes printed by institutionally or privately developed software must send an original (not photocopied or faxed copy) with sample data to:

U.S. Department of Education
ATTN: Promissory Note Testing
P.O. Box 2132
Montgomery, AL 36102-2132



Where to Call

For questions about promissory note testing call:

- 1-800-848-0978.



Take a Look

- See Chapter 3 for details about LOC customer service representatives (CSRs).
- See Appendix A for LOC contact information.



Take a Look

See Chapter 7 for details about loan counseling.



Take a Look

See Chapter 7 for details about drawing down and disbursing Direct Loan funds.

LOC-printed, borrower-specific promissory notes. Standard Origination schools must have the LOC print borrower-specific promissory notes. Origination Option 1 schools and Origination Option 2 schools can request that the LOC print borrower-specific promissory notes for them. They make this request by contacting their LOC customer service representative (CSR). They can choose to have the LOC mail promissory notes to the school or borrowers.

Sending Direct Loan Promissory Notes to Borrowers

As noted earlier, Origination Option 1 schools and Origination Option 2 schools have the authority to send promissory notes to borrowers. Schools use different approaches for this. For example, schools include promissory notes:

- ❖ with award letters,
- ❖ in a separate mailing, or
- ❖ as part of in-person loan counseling.

No matter how a school decides to get a promissory note to a borrower, it should try to make the process as understandable as possible for the borrower. For example, clear directions about using only black or blue ink, where to sign, and the importance of completing the form accurately make the process easier and faster for borrowers, as well as for school staff.

Collecting Direct Loan Promissory Notes from Borrowers

Schools should be clear with borrowers about when they expect borrowers to return promissory notes. They should also have a thorough review procedure when they receive completed and signed promissory notes to be sure that the notes are properly completed and signed. This is important because:

- ❖ The LOC will not draw down funds for a borrower at any Standard Origination school or Origination Option 1 school until a promissory note has been accepted by the LOC.
- ❖ When a promissory note is not completed correctly or not signed, the LOC will not accept the note. Instead, the LOC will return the note to the school for correction.

- ❖ When the LOC does not accept a promissory note, it delays disbursements because of the time required to make corrections and send promissory notes back to the LOC for approval.
- ❖ Origination Option 2 schools can draw down and disburse Direct Loan funds before receiving a loan origination record acknowledgment and/or a promissory note acknowledgment. However, they are not allowed to disburse the funds before they have collected properly completed and signed promissory notes.
- ❖ An Origination Option 2 school that disburses Direct Loan funds to a borrower without having received a correctly completed and signed promissory note is liable to ED for the funds disbursed.
- ❖ The school would also be liable if it disbursed Direct Loan funds on the basis of a promissory note that was not properly completed and signed.
- ❖ As a result, some Origination Option 2 schools choose to send promissory notes to the LOC and wait for approval from the LOC before disbursing Direct Loan funds.

The guidelines on the following pages, which are also published in *Direct Loan Bulletin*, 00-11, should help schools review completed and signed promissory notes they receive from borrowers. Using the guidelines should minimize the number of promissory notes that are not accepted by the LOC.



Reference

- *Direct Loan Bulletin*, 00-11

LOC Processing Edits

The following edits are used to remove promissory notes (p-notes) from normal LOC processing. An LOC manager reviews p-notes that fail these edits to determine if there's anything that can be done to make the note acceptable. If not, the note is sent back to the school or borrower, as appropriate.

| DESCRIPTION | RESOLUTION |
|--|---|
| MPN-ID is blank | Must have a valid loan ID |
| SSN is not numeric | The 9 digit SSN must be numeric values |
| MPN-type is not "S" or "U" or "P" or "M" | The loan ID type must be an S, U, or P for Program Year 1999/2000 and, for Program Year 2000/2001, the MPN ID for new MPNs must have an M |
| Loan-year is not numeric | The two-digit loan year must be a numeric value |
| School type is not "G" or "E" | The first character of the school code must be a G or E |
| School number is not numeric | The last 5 digits of the school code must be numeric |
| Loan sequence number is not numeric | The character in the MPN ID must be numeric |
| P-note number is not numeric | These numbers are the last two digits in the 21-character loan ID. They must be numeric |
| Date received is zeros | The date of entry must be a valid date |
| Loan-type is not "M" (MPN Only) or "P" | The loan type code must be "M" for Stafford and "P" for PLUS Loans for program year 2000/2001 |
| Person first name contains digits | The first name is required on the p-note |
| Person date of birth is not a valid date | The p-note date of birth must be a valid date |

The following are edits performed during processing that are returned to the school on a promissory note acknowledgment.

| APPLIES TO YEAR(S) | ERROR CODES (EXTERNAL) | DESCRIPTION |
|--------------------|------------------------|--|
| 6, 7 | 01 | Missing origination record |
| 6 | S | Disbursed sum greater than promissory note amount or maximum allowed based on the eligibility fields |

**Master Promissory Note Review/Acceptance Guidelines for
Direct Subsidized Loans and Direct Unsubsidized Loans**

| SECTION A: TO BE COMPLETED BY THE BORROWER | | | |
|---|---|--|--------------------------|
| Form Label/Position | Valid Values | Alterations? | Required? |
| 1. Driver's License State and Number | May be left blank. If either license number or state is present, both must be on the p-note | Yes, with initials | No |
| 2. Social Security No. | Borrower's SSN | Yes, with initials | Yes |
| 3. Email address | Student borrower's current email address (May be blank) | | No |
| 4. Name and Address (street, city, state, zip code) | <ul style="list-style-type: none"> • Must have first and last name. Middle initial is optional. • Student borrower's permanent street address OR student's local street address (May be blank) • Student borrower's permanent city, state, and zip code OR student borrower's local city, state, and zip code <p>(Must have city, state, and zip. If foreign country, zip must be blank)</p> | Yes, with initials Yes Yes | Yes No Yes |
| 5. Date of Birth | Borrower's date of birth in month, day, year order | Yes | Yes |
| 6. Area Code/Telephone No. | Student borrower's permanent telephone number (10-digit telephone number) | Yes | No |
| 7. References | 2 references - name, address, phone number, relationship to the borrower | Yes | No |

**Master Promissory Note Review/Acceptance Guidelines for
Direct Subsidized Loans and Direct Unsubsidized Loans (cont'd)**

| Form Label/Position | Valid Values | Alterations? | Required? |
|---|--|---|------------------|
| 8. <i>Label is preprinted; no label to be printed</i> | Requested loan amount (note: This field doesn't appear on all MPNs) | Yes, with initials | No |
| 15. Borrower's Signature & Date | Signature should match the name in item #4, with the following exceptions: middle initial may be omitted in the signature and an obvious derivative of the first or middle name may be used (i.e., William/Bill, Richard/Dick) | <ul style="list-style-type: none"> No alterations are permitted on the borrower's signature; however date may be altered or blank. Signature must be in blue or black ink ("X" signature: disabled borrowers may show their symbol, including "X" for a signature. However, we request that the school official provide a statement on school letterhead, indicating that the symbol is the signature of the borrower.) | Yes |
| SECTION B: TO BE COMPLETED BY THE SCHOOL | | | |
| 9. School Name and Address | School name School's street address School's city, state, and zip code | Yes, with school official's initials Yes, with school official's initials Yes, with school official's initials | Yes No Yes |
| 10. School Code/Branch | Direct Loan school code | Yes | Yes |
| 11. Identification No. | Loan ID of one of the loans associated with this master promissory note (Must be a valid XX-character field) | Yes, with school official's initials (only last 2 digits may be modified) | Yes |

Additional reasons for p-note rejection:

- Promissory note text or signature altered
- Signed date on promissory note is after the Office of Management and Budget (OMB) expiration date on the form
- Promissory note marked “copy” or “nonnegotiable”

Promissory Note Review/Acceptance Guidelines for Direct PLUS Loans

| SECTION A: TO BE COMPLETED BY THE BORROWER | | | |
|---|--|---|---|
| Form Label/Position | Valid Values | Alterations? | Required? |
| 1. Identification No. (a) | Loan ID Promissory note print sequence # | Yes, with school official's initials (only last 2 digits may be modified) | Yes |
| 2. Social Security No. | Borrower's current SSN | Yes, with borrower's initials | Yes |
| 3. Loan Amt. Requested | Loan amount requested by the borrower | Yes, with borrower's initials. (Changing the loan amount requested from blank to zero to an amount is not considered an alteration) | Yes. |
| 4. Date of Birth | Borrower's date of birth in month, day, year order | Yes | Yes |
| 5. U.S. Citizenship Status (Check one) | Citizenship status Alien Registration Number | Yes, with initials | Yes. (If "Permanent resident/other eligible alien" is selected, the Alien Registration # must be present. If "Neither" is selected, the note will reject.) |
| 6. Name and Address | • Borrower's last name, first name, middle initial. Middle initial is optional. | Yes, with Initials | Yes |
| | • Borrower's permanent or local street address | Yes | No |
| | • Borrower's permanent or local city, state, and zip code (If foreign country, zip must be blank) | Yes | Yes |
| 7. Driver's License (State-No.) | Borrower's driver's license state and number (May be blank. If either the license number or state is present, both must be on the p-note.) | Yes | No |

Promissory Note Review/Acceptance Guidelines for Direct PLUS Loans (cont'd)

| Form Label/Position | Valid Values | Alterations? | Required? |
|---|--|--|------------------|
| 8. Area Code/ Telephone No. | Borrower's permanent telephone number | Yes | No |
| 9. Loan Period | Loan period start date (MM/DD/YYYY) and loan period end date (MM/DD/YYYY) | Yes, with initials | Yes |
| Borrower's Signature | Signature should match the name in item #6, with the following exceptions: middle initial may be omitted in the signature and an obvious derivative of the first or middle name may be used (i.e., William/Bill, Richard/Dick) | <ul style="list-style-type: none"> No alterations are permitted on the borrower's signature; however, date may be altered or blank. Signature must be in blue or black ink ("X" signature: disabled borrowers may show their symbol, including "X" for a signature. However, we request that the school official provide a statement on school letterhead, indicating that the symbol is the signature of the borrower.) | Yes |
| SECTION B: TO BE COMPLETED BY THE SCHOOL | | | |
| 10. School Name and Address | School name School's street address School's city, state, and zip code | Yes, with school official's initials Yes Yes, with school official's initials | Yes No Yes |
| 11. Loan Period | Loan period start date (MM/DD/YYYY) and loan period end date (MM/DD/YYYY) | Yes, with initials | Yes |
| 12. School Code/Branch | Direct Loan school code | Yes | Yes |
| 13. Certified Loan Amount | Loan amount approved | Yes, with school official's initials | Yes |
| 14. Anticipated Disbursement Dates | Must include at least two disbursements that fall within the loan period | Yes, with school official's initials | Yes |

Promissory Note Review/Acceptance Guidelines for Direct PLUS Loans (cont'd)

| SECTION C: TO BE COMPLETED BY THE STUDENT | | | |
|--|---|---------------------|--|
| Form Label/Position | Valid Values | Alterations? | Required? |
| 15. Name | Student's last name, first name, and middle initial. (Middle initial is optional) | Yes, with initials | Yes |
| 16. Social Security No. | Student's current SSN | Yes | Yes |
| 17. U. S. Citizenship Status | Student's citizenship status Student's alien registration number | Yes, with initials | Yes (If "Permanent resident/other eligible alien" is selected, the Alien Registration # must be present.) |
| 18. Student's Date of Birth | Student's date of birth (MM/DD/YYYY) | Yes | No |

Additional reasons for p-note rejection:

- Promissory note text or signature altered
- Signed date on promissory note is after the Office of Management and Budget (OMB) expiration date on the form
- Promissory note marked “copy” or “nonnegotiable”



Laws & Regulations

- 34 CFR 685.301(c)(2)



Reference

- *Direct Loan Technical Reference*



For Your Information

Origination Option 1 schools and Origination Option 2 schools send promissory notes and promissory note manifests to the following addresses:

- By regular mail:
U.S. Department of
Education
Loan Origination Center
P.O. Box 5692
Montgomery, AL 36104
- By overnight mail:
U.S. Department of
Education
Loan Origination Center
474 South Court Street,
Suite 400
Montgomery, AL 36104

Forwarding Direct Loan Promissory Notes to the Loan Origination Center

Direct Loan regulations require schools that originate loans to ensure that each loan is supported by a completed promissory note as proof of the borrower's indebtedness. In practice, this means that Origination Option 1 schools and Origination Option 2 schools must send properly completed and signed promissory notes to the LOC. When the multi-year feature of the master promissory note is being used, it also means that the LOC must have a valid master promissory note on file.

With each shipment (batch) of promissory notes, schools must include a paper promissory note manifest.

- ◆ The manifest is a transmittal form that identifies the promissory notes in the batch by listing borrowers' names and promissory note ID numbers. It also has a certification signed by the school attesting to what is being submitted to the LOC.
- ◆ ED has a specific format for the manifest.
 - ◆ EDExpress conforms with the format.
 - ◆ Schools that use institutionally or privately developed software must be sure that the manifests follow ED specifications, which are published in the *Direct Loan Technical Reference*.

Master promissory notes (for student Direct Subsidized Loans and Direct Unsubsidized Loans) and application/promissory notes (for parent Direct PLUS Loans) must be batched separately with a separate promissory note manifest for each batch. Separate promissory note batches and manifests are also required for each school code at a school. For example, a school may use a different school code for branch campuses or programs, such as law and medicine.

ED suggests that schools send promissory notes batches to the LOC by certified mail (return receipt requested) or by express mail service. This provides schools with a way to track down batches if they're lost in the mail.

Schools do not have to keep copies of promissory notes. However, they may want to keep copies of promissory notes until the LOC accepts them. Schools do not have responsibility for promissory notes after they are accepted by the LOC.

Loan Origination Center Activities

The LOC is responsible for assuring that promissory notes are properly completed and signed so that they are legally binding documents that require borrowers to repay their Direct Loans. This includes distributing and collecting endorser addendums for Direct PLUS Loans. As a result, after thorough review of the document, the LOC accepts or does not accept a promissory note.

As noted earlier, an LOC-accepted promissory note is one of three prerequisites for booking a loan.

- ❖ Once a loan is booked:
 - ❖ the loan becomes a legal and binding obligation between the borrower and ED, and
 - ❖ the LOC transfers the loan to ED's Direct Loan Servicing Center (DLSC), which handles repayments, deferments, forbearance, collections, and other back-end processes.

Printing, Distributing, and Collecting Promissory Notes

The LOC prints, distributes, and collects promissory notes from students and parents borrowing Direct Loans to pay for education costs at Standard Origination schools.

Although Origination Option 1 schools and Origination Option 2 schools have the authority to print, distribute, and collect promissory notes, they can choose to request that the LOC perform any or all of these functions for them.

Reviewing Promissory Notes

The LOC receives completed and signed promissory notes from two sources:

- ❖ borrowers (students and parents) and
- ❖ schools.



For Your Information

- See Chapter 7 for more information about disbursement records, which schools must submit within 30 days of each loan disbursement because each loan disbursement for a Direct Loan is booked separately.
- See Chapter 12 for more details about the DLSC.



Take a Look

See page 6-48 for details about how schools can opt to print, distribute, and collect promissory notes.

Borrowers send promissory notes directly to the LOC if they attend:

- ❖ Standard Origination schools or
- ❖ Origination Option 1 schools and Origination Option 2 schools that choose to have the LOC collect promissory notes.

For promissory notes that the LOC receives directly from borrowers, the LOC reviews the notes for completeness and signatures. If there is a problem with a promissory note, the LOC works directly with the borrower to correct the problem.

For promissory notes that the LOC receives directly from schools, the LOC reviews promissory note batches (shipments from Origination Option 1 schools and Origination Option 2 schools) against the promissory note manifests that accompany them. It compares the promissory notes in the batches with the listings on the manifests.

- ❖ If there are no discrepancies between a batch and its manifest, an LOC representative signs the manifest and returns it to the school.
- ❖ If there are discrepancies, an LOC representative also signs the manifest and returns it to the school.
 - ❖ However, in this case, the manifest will identify what the discrepancies are. For example:
 - ❖ a promissory note that is in the batch might not be listed on the manifest or
 - ❖ the manifest might list a promissory note that is not in the batch.

After reviewing each promissory note, the LOC accepts it, holds it as “pending,” or returns it to the school or borrower for correction and resubmission. The LOC sends promissory note acknowledgments to schools for promissory notes that it accepts or holds as pending.

Accepted Promissory Notes

The LOC will accept a promissory note if:

- ❖ the borrower has correctly completed and signed it, and



Take a Look

See page 6-58 for details about promissory note manifests.



Take a Look

See page 6-63 for details about promissory note acknowledgments.

- ❖ the school has forwarded a loan origination record for the loan, and the LOC has accepted the loan origination record.

The LOC lets a school know when a promissory note is accepted by forwarding a promissory note acknowledgment to the school.

Promissory Notes that the LOC Does Not Accept

The LOC will not accept a promissory note if the note has missing items or contains certain mistakes. In this case, the LOC will return the promissory note for correction to the school or borrower, depending on who sent the note. Here is a partial list of reasons for the LOC not accepting a promissory note and returning it to the sender:

- ❖ The promissory note does not match the loan origination record. (This applies to all Direct PLUS Loans. It only applies to Direct Subsidized Loans and Direct Unsubsidized Loans if the multi-year feature of master promissory note is *not* being used.)
- ❖ The loan ID number is invalid or missing.
- ❖ The promissory note does not have an original signature. (This means that a photocopy or faxed copy of the promissory note is not acceptable.)
- ❖ The borrower altered the promissory note text or signature.
- ❖ The borrower completed the promissory note in pencil instead of in ink.

When the LOC does not accept a promissory note, depending on who sent it, the LOC will return the note to:

- ❖ the borrower (at Standard Origination schools) or
- ❖ the school (at Origination Option 1 schools or Origination Option 2 schools).

If the LOC returns a promissory note to a borrower, it will work directly with the borrower to be sure that he or she corrects the problem(s) and sends the promissory note back to the LOC. If the LOC returns a promissory note to a school, the school works with the borrower to correct the problem(s). In this case, once the borrower completes the promissory note, he or she sends it to the school, and the school returns it to the LOC.

Corrections to promissory notes that the LOC doesn't accept often can be made on the existing promissory note, although a borrower may have to initial changes.

- ◆ However, there are circumstances when the school or the LOC (depending on the school's origination status) has to reprint the promissory note for the borrower to complete and sign again.
- ◆ Promissory notes must be reprinted if:
 - ◆ the signed date on the promissory note is after the form's Office of Management and Budget (OMB) expiration date,
 - ◆ the promissory note is marked "copy" or "nonnegotiable,"
 - ◆ the citizenship of the borrower is marked as an ineligible noncitizen, or
 - ◆ the text of the promissory note or the signature on it is altered.

In most other circumstances, changes can be made, then initialed, on the existing promissory note.

To reduce the incidence of the LOC not accepting promissory notes, schools might want to keep a log of the reasons for returned promissory notes. A school can use this information to improve its review process and borrower instructions.



Take a Look

See pages 6-52 through 6-57 for promissory note review guidelines charts.

- ◆ The promissory note review guidelines charts that begin on page 6-52 should also help.

Pending Promissory Notes

Sometimes the LOC receives a promissory note and holds it without accepting the note. In this case, the promissory note is "pending."

- ◆ This happens when a school has not forwarded a loan origination record to the LOC.

The LOC will keep the promissory note on file as pending until it receives and accepts a corresponding loan origination record.

- ◆ The LOC will also let the school know that the promissory note is pending through a promissory note acknowledgment.

- ❖ Once the LOC can accept the promissory note, it sends the school another promissory note acknowledgment showing that it has accepted the note.

For master promissory notes, if the multi-year feature is *not* being used and the school has transmitted a loan origination record, the LOC will accept the master promissory note and send a promissory note acknowledgment to the school showing that the note has been accepted. The LOC also will link the loan to that master promissory note, and not to the one previously on file.

If the multi-year feature *is* being used, then the LOC will hold the master promissory note as pending until it receives the loan origination record. Once the LOC has the loan origination record, it links the loan to the “pending” master promissory note that arrived most recently.

Promissory Note Acknowledgments

The LOC sends promissory note acknowledgments to schools for all accepted and pending promissory notes, whether schools or borrowers send them to the LOC. The LOC does not send acknowledgments for promissory notes returned for correction.

The promissory note acknowledgment is an electronic record that lets a school know whether a promissory note has been accepted or is pending. Once a school receives a promissory note acknowledgment, it takes action accordingly.

- ❖ For an accepted promissory note, a school does not need to take any action. The process has been completed.
- ❖ For a pending promissory note, a school also does not need to take any action.
 - ❖ However, the school may want to find out what happened to the loan origination record. For example:
 - ◆ Did the school send the loan origination record to the LOC?
 - ◆ Did the LOC reject the loan origination record?
 - ◆ Was a rejected loan origination record corrected and sent as a change record to the LOC?



For Your Information

Schools using the multi-year feature of the master promissory note should send the master promissory note *before* transmitting the loan origination record. If the loan origination arrives first, the LOC will link the loan to the most recent previous valid master promissory note that the LOC has on file.

