

## Drawing Down and Disbursing Direct Loan Funds

Schools draw down Direct Loan funds from the U.S. Department of Education (ED) and disburse the funds to borrowers (students and parents). This chapter provides an overview and more detailed information about both drawdowns and disbursements.

### Overview of Drawdown and Disbursement Processes

Direct Loan schools exchange information electronically with ED's systems to draw down and disburse Direct Loan funds. The specific procedures may vary somewhat from school to school depending on a school's origination option and other factors, such as a school's internal processing schedule. However, ED has a general framework for all schools for drawing down and disbursing funds.

- ◆ Depending on a school's origination option, the school or ED's Loan Origination Center (LOC) submits an electronic drawdown request to ED's Grant Administration and Payment System (GAPS).
- ◆ GAPS processes the request and forwards it to the Federal Reserve Bank (FRB).
- ◆ The FRB forwards the money electronically to the school's federal bank account.
- ◆ GAPS notifies the LOC of the amount and date of the drawdown.



#### For Your Information

This chapter is based on Title IV cash management requirements in 34 CFR 668, Subpart K, as well as Direct Loan requirements for disbursing Direct Loan funds.

- Other cash management requirements, such as how to deal with excess cash, are addressed in Chapter 10.
- *The Blue Book*, an ED publication for school fiscal officers, is a good source for extensive information about all Title IV cash management requirements.



#### Take a Look

See Chapter 4 for details about origination options.

- ◆ The school disburses the money to the borrower.
  - ◇ Often this means crediting the Direct Loan funds to the student's tuition account. When funds are disbursed in this manner, the school must notify the borrower (student or parent) that the account has been credited.
  - ◇ If a student is a first-time borrower, the school must conduct entrance loan counseling before beginning to disburse the loan.
- ◆ The school sends an electronic disbursement record to the LOC.
- ◆ The LOC accepts or rejects the disbursement record and sends an electronic disbursement acknowledgment to the school. If the disbursement is accepted, the LOC may or may not book the loan.
  - ◇ A loan is booked when the LOC has received and accepted:
    - ◆ a loan origination record,
    - ◆ a completed and signed promissory note, and
    - ◆ a disbursement record.
  - ◇ Once the loan is booked, the LOC transmits the loan information to ED's Direct Loan Servicing Center (DLSC), and the DLSC sends a welcome letter to the borrower.



**For Your Information**

Direct Loan schools assume several important responsibilities after drawing down federal funds. For example:

- Schools must disburse or return all federal funds. Schools are not allowed to maintain excess cash in their account for longer than the periods outlined in cash management regulations.
- They must also reconcile their records with ED's on a monthly and annual basis.

These responsibilities are discussed in Chapter 9 and Chapter 10.

## Drawing Down Direct Loan Funds

Drawing down Direct Loan funds consists of three basic steps:

- ◆ calculating the school's need for Direct Loan funds,
- ◆ making the request, and
- ◆ receiving the funds.

Depending on a school's origination status, the school or the LOC calculates the school's need for Direct Loan funds and makes the request to draw down Direct Loan funds from GAPS.

## Calculating and Requesting Direct Loan Funds

The LOC calculates the amount and timing for drawing down Direct Loan funds for Standard Origination schools and Origination Option 1 schools. The LOC also makes the requests for Direct Loan funds on behalf of these schools to GAPS.

Origination Option 2 schools calculate for themselves how much to draw down in Direct Loan funds. The schools determine the amount they need and when the funds should arrive. They then make requests for Direct Loan funds directly to GAPS.

### Standard Origination and Origination Option 1 Schools

The LOC requests Direct Loan funds only for eligible borrowers (students or parents) for whom it has received and accepted:

- ❖ loan origination records and
- ❖ completed and signed promissory notes.

Requested funds are:

- ❖ based on anticipated disbursement amounts and dates included in the loan origination records the school created and sent to the LOC and
- ❖ borrower-specific and for exact amounts.

The LOC requests Direct Loan funds for Standard Origination schools and Origination Option 1 schools using a process and a schedule that minimizes schools ending up with excess cash.

- ❖ Generally, excess cash occurs when a school receives Title IV funds and it does not disburse them within three business days of having received the funds.
- ❖ There are number of reasons why a school might not disburse funds, such as a borrower no longer being eligible for a Direct Loan or a borrower deciding to reduce the amount of his or her Direct Loan.



#### Take a Look

- See page 7-10 for details about disbursements.
- See Chapter 6 for details about loan origination records.
- See Chapter 10 for details about excess cash and other cash management requirements.



#### Laws & Regulations

- 34 CFR 668.166(a)(1)



#### For Your Information

If excess cash tolerance requirements in 34 CFR 668.166(b) are met, a Standard Origination or Origination Option 1 school may retain undisbursed funds for an additional seven calendar days beyond the initial three business days after receiving the funds if the school expects to disburse the funds to the borrower for whom the money was intended within the seven-day period.

Approximately 30 to 45 days before the anticipated disbursement date listed in the loan origination records forwarded by a school, the LOC sends an electronic Anticipated Disbursement Listing to a Standard Origination or Origination Option 1 school. The listing includes:

- ❖ the names of borrowers for whom the LOC has received and accepted loan origination records and promissory notes,
- ❖ the specific loan identifiers (IDs) to be disbursed (Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans),
- ❖ anticipated disbursement amounts, and
- ❖ anticipated disbursement dates.

The school is not allowed to disburse Direct Loan funds to borrowers from this listing. Instead, it reviews the Anticipated Disbursement List to find out if adjustments need to be made, particularly to the anticipated disbursement amounts and anticipated disbursement dates.

- ❖ If there are changes, the school informs the LOC by electronically transmitting change records. Examples of changes include:
  - ❖ A borrower becomes ineligible for a Direct Loan.
  - ❖ A borrower decides to reduce the amount he or she is borrowing, thus reducing the amount of the disbursement.
  - ❖ A borrower is still eligible for a Direct Loan, but the disbursement date is delayed.

Four days before the anticipated disbursement date, the LOC requests that GAPS make Direct Loan funds available to the school. The amount requested and the timing are based on the anticipated disbursement amounts and disbursement dates in the loan origination records and change records. At the same time, the LOC electronically creates and sends an Actual Disbursement Roster to the school.

- ❖ The Actual Disbursement Roster notifies the school that:
  - ❖ the LOC has requested Direct Loan funds for the borrowers listed on the roster, and
  - ❖ the funds will arrive in the school's federal bank account within three to four days.



**Take a Look**

See Chapter 8 for details about change records.



**For Your Information**

If the LOC receives and accepts a loan origination record and a signed promissory note within 15 days of a disbursement, the loan might not appear on the Anticipated Disbursement Listing.

- However, the LOC will request funds for this loan four days before the anticipated disbursement date.
- This loan should appear on the Actual Disbursement Roster.



**Take a Look**

See Chapter 10 for details about schools' federal bank accounts.

- ◆ The Actual Disbursement Roster lists individual borrowers, loan types, actual disbursement amounts for each loan, and the total amount of funds requested.

The anticipated disbursement dates that a school enters into its loan origination records dictate when the LOC calculates and requests Direct Loan funds. As a result, a school can control the timing of drawdowns by its choice of anticipated disbursement dates.

- ◆ Although schools have considerable latitude in choosing anticipated disbursement dates, these dates must conform to disbursement requirements.

### **Origination Option 2 Schools**

Origination Option 2 schools are authorized to draw down funds directly from GAPS. Unlike Standard Origination schools and Origination Option 1 schools, Origination Option 2 schools can request Direct Loan funds on the basis of estimates rather than borrower-specific disbursement amounts.

- ◆ The estimates must reflect a school’s “immediate need” for Direct Loan funds.
  - ◆ Immediate need is defined as the amount the school needs to disburse to its borrowers within three business days beginning from the date the school receives the funds.
  - ◆ Funds that are not disbursed within the three-day period are considered to be excess cash.
  - ◆ The three-day requirement is part of the regulatory cash management regulations that apply to all Title IV federal student financial aid programs, including the Direct Loan Program.



#### **Take a Look**

See page 7-10 for details about disbursement requirements.



#### **Laws & Regulations**

- 34 CFR 668.14(b)(2)



#### **Take a Look**

See Chapter 10 for details about excess cash and other cash management requirements.

## Estimating Drawdown Requests

When an Origination Option 2 school estimates its drawdown request for Direct Loan funds, it must take into account:

- ◆ how much the school plans to disburse in Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans; and
- ◆ the amount of Direct Loan funds the school has on hand from Direct Loan funds the school received (drew down) but did not disburse from the previous request.

In addition, the request for funds must be net of (minus) the 3 percent loan fee assessed by ED to students who borrow Direct Loans or the 4 percent loan fee assessed by ED to parents who borrow Direct PLUS Loans.

ED also suggests that Origination Option 2 schools consider the following when estimating immediate need for drawing down Direct Loan funds:

- ◆ Is the borrower eligible to receive a Direct Loan? For example:
  - ◇ Is there a hold on a student's school tuition account?
  - ◇ Is the student making satisfactory academic progress?
  - ◇ Has the student's enrollment status changed?
  - ◇ Does the school have a properly completed and signed promissory note?
- ◆ Is the school basing the request on anticipated disbursement amounts or actual amounts already disbursed using the school's own funds?
  - ◇ If the school requests Direct Loan funds on the basis of anticipated disbursements, does this often result in excess cash (funds the school does not disburse)?
  - ◇ If the school requests Direct Loan funds on the basis of actual disbursements, does "fronting" its own funds until ED forwards the Direct Loan funds put the school in a difficult cash flow position?
- ◆ To project future cash needs, does the school look at its historical trends for requesting Direct Loan funds? For example:
  - ◇ Does the school chart how much it requests compared to how much it actually spends?



### Take a Look

- See Chapter 2 for details about Direct Loan fees.
- See Chapter 5 for details about borrower eligibility requirements.

- ❖ How much did the school request last year at this time?
- ❖ Was the request sufficient to cover actual disbursements?
- ❖ Was the request more than the school needed to cover disbursements?

Origination Option 2 schools may use EDExpress (ED's free PC software) or a privately developed software application or mainframe system to calculate how much to request for each drawdown. In any of these cases, schools sometimes find that computer-generated calculations are too high or too low. They, therefore, adjust their estimates before sending a drawdown request to ED.

- ❖ Reasons for adjusting computer-generated calculations include school historical trends or other information that suggests that more or less Direct Loan funding probably will be needed at a particular point in an academic year.
  - ❖ For example, a school with a history of having a number of students withdraw within a few weeks of registration might find that the drawdown calculation is too high.
  - ❖ Similarly, a school that is expecting more signed promissory notes to arrive from borrowers could find that the drawdown calculation seems too low.

### Sending Drawdown Requests to GAPS

As noted earlier, Origination Option 2 schools request Direct Loan funds directly (and electronically) from GAPS:

- ❖ through the Internet (<http://gapsweb.ed.gov>) or
- ❖ by calling toll-free 1-888-336-8930.

GAPS verifies that the GAPS user ID and password for the individual making the request on behalf of the school are valid. If the GAPS user ID or password are invalid, GAPS will not authorize the individual to make a payment request.



#### **Web site**

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



#### **Where to Call**

GAPS toll-free number for making drawdown requests is 1-888-336-8930

When there are problems with a drawdown request, it usually happens because ED has flagged a school's Direct Loan GAPS account for review when a drawdown request is made. This might be the case if a school is on the reimbursement payment method or if it has been having difficulty estimating accurate drawdown amounts.

Once the payment request is authorized by GAPS, GAPS transmits the Automated Clearinghouse/Electronic Funds Transfer (ACH/EFT) payment file to the Federal Reserve Bank (FRB), which is responsible for transferring Direct Loan funds to the school.

**Timing Drawdown Requests**

Generally, the turnaround between the time an Origination Option 2 school's drawdown request goes to GAPS and the time it receives the funds from the FRB is 48 to 72 hours. GAPS has a 3:30 pm (ET) cutoff for school requests. The following chart shows when a school can expect to receive requested funds.

<b>Timeline* for Drawing Down Direct Loan Funds Using ACH/EFT</b>	
<b>When School Submits a Drawdown Request</b>	<b>When School Receives Direct Loan Funds</b>
Monday morning	Wednesday or Thursday
Monday afternoon/Tuesday morning	Thursday or Friday
Tuesday afternoon/Wednesday morning	Friday or Monday
Wednesday afternoon/Thursday morning	Monday or Tuesday
Thursday afternoon/Friday morning	Tuesday or Wednesday
Friday afternoon/Monday morning	Wednesday or Thursday
<p>* The Deposit Date field in the GAPS request screen is an <i>estimated</i> deposit date. Schools should be able to gauge what their timing will usually be after making several drawdowns to their bank account. Schools using FEDWIRE might be able to receive funds in less than 24 hours. The GAPS Web page gives more detailed timing information.</p>	

## Receiving Direct Loan Funds

All Direct Loan schools receive Direct Loan funds the same way. After GAPS processes drawdown requests, whether they come from a school or the LOC, GAPS forwards an ACH/EFT payment file to the FRB. The FRB wires the Direct Loan funds to a federal bank account that the school must maintain for receiving and disbursing Title IV federal student aid funds. (This is a cash management requirement.)

- ◆ A school is allowed to use a single bank account for all Title IV funds, including Direct Loan funds. The school must be able to identify which funds belong to the Direct Loan Program.
- ◆ ED, however, recommends establishing a separate federal bank account to receive Direct Loan funds.
- ◆ A separate bank account makes it easier for a school to keep track of and reconcile Direct Loan funds.

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

- ◆ If a school changes its designated bank account, it should send an SF1199A direct-deposit form to ED.

No matter what the cause, ED contacts a school whenever there is a problem wiring Direct Loan funds.



### Take a Look

See Chapter 10 for details about cash management requirements, including maintaining a federal bank account.

**Laws & Regulations**

- 34 CFR 668.164(a)

**Laws & Regulations**

- 34 CFR 668.16(c)(2)

**Reference**

- *The Blue Book*

**Laws & Regulations**

- 34 CFR 685.303(b)(1)

**Take a Look**

See page 7-4 for details about Actual Disbursement Rosters.

## Disbursing Direct Loan Funds

Except when a disbursement otherwise is prohibited, a disbursement occurs when a school credits a student's account or pays a borrower directly with Direct Loan funds or with institutional funds used in advance receiving Direct Loan funds.

### Separation of Functions

The Title IV General Provisions regulations require that schools separate the functions of authorizing payments to students and disbursing payments to students. This applies to the Direct Loan Program.

- ◆ At many schools, the financial aid office is responsible for authorizing payments while the business office handles disbursements, but specific organizational approaches vary from school to school.

*The Blue Book*, which is an ED publication that helps postsecondary school fiscal officers administer the Title IV programs, provides more information about separating payment authorization and disbursement responsibilities.

### Completed and Signed Promissory Notes

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

- ◆ A Standard Origination school or an Origination Option 1 school is not allowed to disburse Direct Loan funds to a borrower until a completed and signed promissory note has been received by the LOC or the school respectively. Funds may not be drawn down, however, until the LOC:
  - ◆ forwards to the school an Actual Disbursement Roster that lists the borrower, the loan type, and loan amount to be disbursed; and
  - ◆ makes the drawdown request as listed in the Actual Disbursement Roster to GAPS on behalf of the school for the borrower.

- ❖ An Origination Option 2 school has the authority to disburse Direct Loan funds to borrowers before sending completed and signed promissory notes to the LOC or before receiving an acknowledgment from the LOC that the promissory notes are accepted.
- ❖ However, the school must have received a completed and signed promissory note from a borrower before making a disbursement. If this is not the case, the school assumes liability for the loan. For this reason, a number of Origination Option 2 schools choose to send completed and signed promissory notes to the LOC and wait for the LOC to accept the promissory notes before making disbursements to borrowers.
- ❖ When the LOC accepts promissory notes, it notifies schools through promissory note acknowledgments.

## Student Eligibility for Direct Loan Disbursements

Before disbursing Direct Loan funds to a student, a school must be sure that the student:

- ❖ has continually maintained eligibility from the beginning of the loan period (except for late disbursements and disbursements made after a school's loss of eligibility, which have different requirements), and
- ❖ still meets Title IV eligibility requirements, such as making satisfactory academic progress, not being in default on a federal education loan, and not owing an overpayment on a federal education grant or loan.

### *Students Who Delay Attendance*

If a student delays attending a school but begins attending within the first 30 days of the enrollment period, the school may consider the student to have maintained eligibility for the loan from the first day of the enrollment period.



#### Take a Look

See Chapter 6 for details about Direct Loan promissory notes and promissory note acknowledgments.



#### Laws & Regulations

- 34 CFR 685.303(b)(2)



#### Take a Look

See Chapter 5 for details about borrower eligibility.



#### Laws & Regulations

- 34 CFR 685.303(b)(2)(ii)
- 34 CFR 685.303(b)(3)

**Take a Look**

See Chapter 11 for details about SSCRs.

**Laws & Regulations**

- 34 CFR 685.303(b)(3)

**Take a Look**

See Chapter 10 for information about idle cash.

**Laws & Regulations**

- 34 CFR 685.303(b)(2)(iv)

## ***Students Who Withdraw Or Are Expelled Before the First Day of Classes***

In certain circumstances, a school must notify ED of a change by sending enrollment status information about a student to the National Student Loan Data System (NSLDS) within 30 days of the change. This is the case if:

- ❖ a student withdraws or is expelled prior to the first day of classes of the period of enrollment for which the loan is made;
- ❖ a student fails to attend school during that enrollment period; or
- ❖ the school cannot document that a student attended school during that period.

This is part of the Student Status Confirmation Report (SSCR) process, which is described in Chapter 11.

- ❖ In addition to reporting the student's change in enrollment status, the school must return any loan proceeds that were credited to the student's tuition account to ED or to the school's Title IV account.
- ❖ The school must also send ED the amount of any payments made to the student, up to the amount of the loan proceeds.
- ❖ Depending on when the money is returned, the school returns the funds to the LOC as excess cash, or it returns the funds to ED's Direct Loan Servicing Center (DLSC) as a prepayment on the student's account.
- ❖ An Origination Option 2 school may disburse the funds to any other eligible student within cash management timelines.

## ***Students Temporarily Not Enrolled At Least Half Time***

If, on a temporary basis, a student ceases to be enrolled at least half time before the school makes a first Direct Loan disbursement, the school might still be able to disburse the funds when the student resumes enrollment if the following conditions exist:

- ❖ The student resumes enrollment on at least a half-time basis.
- ❖ The school has determined the student's revised cost of attendance.

- ❖ The school finds that the student is still eligible for the entire amount of the Direct Loan, even after revising the cost of attendance to reflect the temporary cessation of half-time enrollment.
- ❖ The school documents this information in the student's file.

### ***Schools that Lose Eligibility to Participate in Title IV Programs***

If, after the first disbursement is made, a student becomes ineligible for Direct Loans solely because the school he or she attends loses its eligibility to participate in the Direct Loan Program or all the Title IV federal student financial aid programs, the school may make subsequent disbursements on the loan to the borrower if:

- ❖ the school's program participation ends during a period of enrollment;
- ❖ the school continues to provide educational programs to otherwise eligible students enrolled in the school's formerly eligible programs until the end of the period of enrollment;
- ❖ the loan was made for attendance during that period of enrollment; and
- ❖ the funds for the first disbursement were delivered to the student or credited to his or her account before the school's program participation ended.

### **Loan Counseling**

The Higher Education Act of 1965, as amended, (HEA) and Direct Loan regulations require schools that participate in the Direct Loan Program to provide entrance counseling and exit counseling to students who borrow Direct Loans.

- ❖ Schools are not required to offer loan counseling to parents who borrow from the Direct Loan Program.



#### **Laws & Regulations**

- 34 CFR 685.303(b)(2)(iii)



#### **Laws & Regulations**

- HEA, Title IV, Part D
- 34 CFR 685.304



**Web site**

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

ED provides Direct Loan schools with pamphlets, videos, and other materials to help financial aid administrators provide effective loan counseling. Information about these counseling materials is available on ED’s Direct Loan Web site. This Web site also has online, interactive information for borrowers, including:

- ❖ a computer-assisted entrance counseling session, followed by a quiz, that meets regulatory requirements for conducting entrance loan counseling when schools document that students have completed the counseling requirements and that someone was available to answer borrowers’ questions;
- ❖ a budget calculator, which helps borrowers estimate their income and expenses;
- ❖ a monthly repayment calculator, which estimates monthly payments so borrowers can compare the cost of different Direct Loan repayment plans; and
- ❖ a Direct Consolidation Loan calculator, which estimates monthly payments for borrowers interested in combining their federal education loans.



**Laws & Regulations**

- 34 CFR 685.304(a)



**Reference**

- *Entrance Counseling Guide for Borrowers*
- *Entrance Counseling Guide for Counselors*

**Entrance Counseling Requirements**

A school participating in the Direct Loan Program must provide entrance counseling to student borrowers before disbursing funds, unless:

- ❖ the borrower previously received a Direct Subsidized Loan, Direct Unsubsidized Loan, a subsidized or unsubsidized FFEL Program loan, or Federal SLS Loan;
- ❖ the borrower is enrolled in a correspondence program or study-abroad program approved for credit at the home school (however, schools must mail written counseling materials before disbursing funds); or
- ❖ the school has adopted an alternative approach to entrance counseling as part of its quality assurance plan (unless ED determines that the alternative approach is not adequate for the school).

When entrance counseling is required, schools must conduct it:

- ❖ in person,

- ❖ by audiovisual presentation (for example, using a video),
- ❖ by computer-assisted technology (for example, using an Internet site that students can access from off campus), or
- ❖ if the school has adopted an alternative counseling approach, by mailing counseling materials to students.

In all cases, schools must ensure that an individual with knowledge of Title IV programs is reasonably available to students after the counseling to answer their questions, and schools must document that each student received the required counseling.

If a student borrower is enrolled in a correspondence program or study-abroad program that is approved for credit by the school, the school must mail counseling materials to the borrower before disbursing Direct Loan funds.

- ❖ A school may use the U.S. Postal Service or a commercial mailing service to send ED's *Entrance Counseling Guide for Borrowers* publication to borrowers to satisfy the requirement for mailed counseling materials.
- ❖ The student does not also have to receive in-person counseling.

During entrance counseling, a Direct Loan school must:

- ❖ emphasize to student borrowers the seriousness and importance of the loan repayment obligations they are assuming;
- ❖ describe "in forceful terms" the likely consequences of default, including damaged credit ratings, legal action taken, and wage garnishment;
- ❖ provide average indebtedness of students who have obtained Direct Subsidized Loans and Direct Unsubsidized Loans to attend the school or enroll in the student's program of study; and
- ❖ provide the average anticipated monthly payments for the school's students on the basis of the students' average indebtedness.

ED recommends that Direct Loan schools remind student borrowers:

- ❖ to keep the DLSC informed of any changes in name, address, telephone number, Social Security number, employer, or enrollment status; and



### For Your Information

A school can adopt an alternative approach to entrance counseling if it is part of the school's quality assurance plan. The alternative approach must:

- ensure that each first-time borrower, subject to counseling requirements, is provided with written counseling materials that comply with the regulations;
- target students who are most likely to default and provide them with more intensive counseling and support services; and
- include outcome-oriented performance measures, such as debt levels, default rates, and withdrawal rates, that demonstrate the alternative counseling approach's effectiveness.



### Take a Look

See Chapter 3 for details about the consequences of default.



### Take a Look

- See page 7-28 of this chapter and Chapter 12 for details about the DLSC.
- See Chapter 3 for details about borrower responsibilities



### Take a Look

See Chapter 2 for details about deferment, forbearance, loan discharge, repayment plans, prepayment, interest rates, loan fees, and other terms and conditions.



### Reference

For additional recommendations, see *SFA Handbook: William D. Ford Direct Loan and Federal Family Education Loan Programs*.



### Laws & Regulations

- 34 CFR 685.304(b)

- ◆ that they are obligated to repay the full amounts of their loans, plus interest, even if they:
  - ◇ don't complete their programs of study (unless the school closed or falsely certified their Direct Loans);
  - ◇ don't like their school or program of study; or
  - ◇ don't obtain employment after completing their program of study.

Schools also should:

- ◆ review critical information by having students answer questions (such as the ones provided in the *Entrance Counseling Guide for Borrowers*);
- ◆ counsel borrowers on budgeting and other aspects of personal financial planning;
- ◆ review loan provisions for deferment, forbearance, and discharge;
- ◆ review Direct Loan repayment plans;
- ◆ inform borrowers that there is no penalty for early repayment (prepayment) of their loans;
- ◆ review borrowers' rights and responsibilities, which are included with their promissory notes and in the *Entrance Counseling Guide for Borrowers*;
- ◆ review all loan terms and conditions, including interest rates and loan fees; and
- ◆ remind borrowers to contact the DLSC if they have questions or any difficulty making a payment.

### Exit Counseling Requirements

A Direct Loan school must provide in-person exit counseling to students who borrow Direct Subsidized Loans and Direct Unsubsidized Loans.

- ◆ A school does not have to offer exit counseling to parents who borrow Direct PLUS Loans.

Exit counseling must take place shortly before a student borrower graduates, withdraws, or, for any other reason, stops attending the school at least half time.

There are three exceptions to the requirement for conducting exit counseling in person.

- ❖ A school is allowed to use computer-assisted means to conduct exit counseling.
  - ❖ The electronic exit counseling does not have to take place at the school. For example, a school may provide personalized exit counseling through a Web site that students can access from off campus. However, the school must document that the exit counseling took place and that knowledgeable personnel were standing by to answer questions, as needed.
- ❖ If a student borrower is enrolled in a correspondence program, the school must mail written counseling material to the student within 30 days after he or she completes the program.
- ❖ If a borrower withdraws from school without the school's prior knowledge, or if a borrower does not attend a scheduled exit counseling session, a school must mail written exit counseling material to the borrower at his or her last known address.
  - ❖ These materials must be mailed within 30 days after a school learns that the borrower has graduated, withdrawn, fallen below half-time enrollment, or hasn't attended the scheduled counseling session.

A school must maintain documentation in the borrower's file to show that a student borrower received the required exit counseling, either in person, by electronic means, or by mail. ED's *Exit Counseling Guide for Borrowers* has a rights and responsibilities summary checklist and a borrower information sheet that schools can use to document that exit counseling took place.

When conducting exit counseling, a school is responsible for:

- ❖ informing the student borrower of the average anticipated monthly payments for his or her loans based on either the student's actual debt or the average indebtedness of students at the school or in the student's program (schools can use student-specific materials that, if requested, the DLSC prepares);
- ❖ reviewing the available repayment plans and loan consolidation;



#### Reference

- *Exit Counseling Guide for Borrowers*
- *Exit Counseling Guide for Counselors*



#### Take a Look

- See Chapter 12 for details about the DLSC.
- See Chapter 2 for details about Direct Loan repayment plans and Direct Loan Consolidation.



**Take a Look**

See Chapter 3 for details about:

- the consequences of defaulting on a Direct Loan and
- borrower obligation to repay Direct Loans.



**Where to Call**

- The borrower services number at the DLSC is 1-800-848-0979.

- ◆ suggesting debt-management strategies that the school believes will help the borrower repay his or her loans successfully;
- ◆ reviewing the conditions under which the borrower may defer repayment or discharge loans;
- ◆ requiring the borrower to provide any changes to the school’s records about his or her:
  - ◇ name, address, and Social Security number;
  - ◇ references;
  - ◇ driver’s license number and state where it was issued (if applicable); and
  - ◇ name and address of expected employer (if known);
- ◆ emphasizing the seriousness and importance of the repayment obligation;
- ◆ describing “in forceful terms” the likely consequences of default, including a damaged credit rating, legal action being taken against the borrower, forced repayment by wage garnishment, and income tax refunds being withheld; and
- ◆ explaining to the borrower how to contact the DLSC.

ED also recommends that a school’s exit counseling sessions include:

- ◆ reminding borrowers to keep the DLSC informed of any changes in name, address, telephone number, employer, or enrollment status that might occur while they still owe Direct Loans;
- ◆ reminding borrowers that they are obligated to repay the full amounts of their loans, plus interest, even if they:
  - ◇ don’t complete their program of study (for reasons other than school closure or false certification of loan eligibility), or
  - ◇ don’t like their school or program of study, or
  - ◇ don’t obtain employment after completing their program of study;

- ❖ reviewing critical information by having students complete the review exercise in ED's *Exit Counseling Guide for Borrowers*;
- ❖ counseling borrowers on budgeting and other aspects of personal financial planning;
- ❖ reviewing loan provisions for deferment, forbearance, and discharge;
- ❖ informing borrowers that there is no penalty for repaying their loans early (prepayment);
- ❖ reviewing borrowers' rights and responsibilities;
- ❖ reviewing loan terms and conditions, including interest rates and loan fees; and
- ❖ reminding borrowers to contact the DLSC if they have questions or any difficulty making a payment.

## Disbursement Date

Except when a disbursement otherwise is prohibited, a disbursement occurs when a school credits a student's account or pays a borrower directly with Direct Loan funds or with school funds used in advance of receiving Direct Loan funds.

In most cases, the disbursement date for a Direct Loan is defined as the earliest of:

- ❖ the date a school actually credits the student's tuition account;
- ❖ the date a school initiates an electronic funds transfer (EFT) to the borrower's personal bank account; or
- ❖ the date the check or cash is made available to the borrower.
  - ❖ Making a check available means releasing or mailing a check to the borrower or notifying the borrower that the check is ready to be picked up immediately.
  - ❖ If a school disburses any Direct Loan funds as cash, the school must obtain a signed receipt from the borrower.



### Take a Look

- See Chapter 2 for details about deferment, forbearance, loan discharge, prepayment, interest rates, loan fees, and other terms and conditions.
- See Chapter 3 for details about borrowers' responsibilities.
- See Chapter 12 for details about the DLSC.



### Reference

For additional recommendations, see *SFA Handbook: William D. Ford Direct Loan and Federal Family Education Loan Programs*.



### Laws & Regulations

- 34 CFR 668.164(a)(2)
- 34 CFR 685.303(c)
- 34 CFR 668.164(d)



**Reference**

- *The Blue Book*
- *SFA Handbook: Institutional Eligibility and Participation*
- *Direct Loan Bulletin 96-5*



**Laws & Regulations**

- 34 CFR 668.164(b)
- 34 CFR 668.4



**Laws & Regulations**

- 34 CFR 668.164(f)(1)



**Laws & Regulations**

- 34 CFR 668.164(f)(2)



**Laws & Regulations**

- 34 CFR 685.301(b)(3)(ii), (b)(5) & (b)(6)



**Laws & Regulations**

- 34 CFR 685.301(b)

- ◇ In the case of a Direct PLUS Loan, the student for whom the parent borrowed the loan is allowed to receive or pick up the funds if the parent provides the school with written authorization.

ED publications, *The Blue Book* and *Student Financial Aid (SFA) Handbook: Institutional Eligibility and Participation*, offer more information about disbursement date requirements for Title IV funds, including Direct Loan funds.

### Disbursement Schedule

Cash management regulations require a school to disburse Direct Loan funds on a payment-period basis. Payment period refers to a term or other division of the loan period and is defined in regulations (34 CFR 668.4).

- ◆ For credit-hour programs with standard terms (semesters, trimesters, or quarters), the earliest a school may disburse first and subsequent Direct Loan funds to a borrower (student or parent) is ten days before the first day of classes for the term.
- ◆ For credit-hour programs not using semesters, trimesters, or quarters and for all clock-hour programs, the earliest a school may make a disbursement of Direct Loan funds is the later of:
  - ◇ ten days before the first day of classes for the payment period or
  - ◇ the date the student completed the previous payment period for which he or she received Title IV funds. This provision does not apply, however, to a subsequent disbursement that a school is required by regulations to make at the midpoint of a payment period.

### Disbursing Direct Loans in Multiple Installments

A school generally disburses Direct Loans in multiple installments. The disbursements must be in substantially equal installments, and no installment may exceed one half of the loan amount. However, there are five situations for which a school is allowed to make a single disbursement.

- ❖ If one or more payment periods have elapsed before a school makes a disbursement, the school may include loan proceeds for completed payment periods in the disbursement.
- ❖ If a loan period is equal to one payment period, such as a semester, and more than one-half of the term has elapsed, a school may include loan proceeds for the entire payment period in the disbursement.
- ❖ If a school's FFEL Program cohort default rate, Direct Loan Program cohort rate, or weighted average cohort rate is less than 10 percent for each of the three most recent fiscal years *and* if the loan period is not more than one quarter, one semester, one trimester, or four months, the school may opt to disburse all loan funds in one disbursement.
- ❖ If a school's FFEL Program cohort default rate, Direct Loan Program cohort rate, or weighted average cohort rate is less than 5 percent for the most recent fiscal year, it may make a single disbursement to cover the entire academic year to borrowers enrolled in a program of study abroad approved by the eligible home institution.
- ❖ If a school is not in a state, it is not required to make more than one disbursement on a loan.

## Delayed Disbursement

Some students may not receive a loan disbursement until 30 days after the first day of their program of study begins. When this happens, it is called a “delayed disbursement.”

In general, a school may not release the first disbursement of a Direct Loan to a first-year undergraduate student borrower who has not previously received a Federal Stafford Loan, Federal SLS Loan, Direct Subsidized Loan, or Direct Unsubsidized Loan until 30 calendar days after the first day of the student's program of study.

This requirement does not apply to:

- ❖ a school that has a FFEL Program cohort default rate, Direct Loan Program cohort rate, or weighted average cohort rate of less than 10 percent in the three most recent fiscal years for Direct Loan Program loans and FFEL Program loans,



### Laws & Regulations

- 34 CFR 668.164(a)(2)
- 34 CFR 685.303(b)(4)



### Laws & Regulations

- HEA, Section 428G(b)(1)



**Laws & Regulations**

- 34 CFR 668.164(g)

- ❖ a parent who borrows a Direct PLUS Loan, or
- ❖ a school that has a FFEL Program cohort default rate, Direct Loan Program cohort rate, or weighted average cohort rate of less than 5 percent for the most recent fiscal year for loans for study-abroad programs, if those programs are approved by the home institution.

**Late Disbursement**

A borrower (student or parent) is sometimes eligible to receive a Direct Loan disbursement after the loan period has ended or the student is no longer enrolled at least half time. A school is allowed to make a late disbursement only if:

- ❖ while enrolled at least half time, the student incurred education-related costs that were not paid by other sources of financial aid;
- ❖ while the student was enrolled at least half time, the school received a SAR or ISIR that had an official Expected Family Contribution calculated by ED;
- ❖ the school originated a loan origination record for the Direct Loan while the student was enrolled at least half time;
- ❖ if required for a first-year, first-time undergraduate, the student completed the first 30 days of enrollment; and
- ❖ except for the student's falling below half-time enrollment, the borrower remains eligible to receive the disbursement.

A school is not allowed to make a late second or late subsequent disbursement, unless the student has graduated or successfully completed the period of enrollment for which the loan was intended.

A school must make a late disbursement no later than 90 days after a student is no longer enrolled at least half time.

## Using School Funds to Make Disbursements

A school may use its own funds to disburse Direct Loans before federal funds actually arrive. This is a strategy for avoiding excess cash, but schools may incur liabilities in some cases, for example, if promissory notes are rejected.

The official disbursement date cannot be earlier than the school could otherwise make the disbursement, as described earlier in this section.

- ❖ As a result, in most cases, if a school uses its own funds to make disbursements, a Direct Loan is not considered officially disbursed until the tenth day before the first day of classes, even if, for example, a school credits a student's tuition account 11 days or more before classes begin.
- ❖ Similarly, for a student whose loan funds are subject to a 30-day delayed disbursement, if a school credits the student's account with institutional funds earlier than 30 days after the first day of classes, the official Direct Loan disbursement date cannot be earlier than the 30th day after the beginning of classes. However, the school has the option to wait until federal funds are actually received before it makes and reports a Direct Loan disbursement.

## Crediting Disbursements to Student Accounts

As noted earlier in this chapter, a school is allowed to disburse Direct Loan funds to a student's account. A school may do this without obtaining separate written authorization or acknowledgment from the borrower (student or parent).

- ❖ The signed Direct Loan promissory note and disclosure statement already contain the necessary authorization and acknowledgment.

When a school credits a student's account, the loan funds can be used to pay the following charges incurred for the loan period:

- ❖ tuition,
- ❖ fees,
- ❖ room (if the student contracts with the school for room), and
- ❖ board (if the student contracts with the school for board).



### Take a Look

See Chapter 10 for details about excess cash.



### Laws & Regulations

- 34 CFR 668.164(a)



### Take a Look

See Chapter 6 for details about promissory notes and disclosure statements.



### Laws & Regulations

- 34 CFR 668.164(d)

If a school has written permission from a borrower (student or parent), the school may also credit funds to the student's account for:

- ❖ other current loan-period charges incurred for educationally related activities, such as bookstore charges and parking; and
- ❖ prior award year charges if the charges are less than \$100 or if paying these charges will not prevent the student from paying his or her current educational costs.

### ***Handling Credit Balances on Student School Accounts***

Whenever a school disburses Title IV funds to a student's account and the total amount of funds credited exceeds allowable charges, a check or similar instrument (such as an electronic funds transfer [EFT]) requiring the borrower's endorsement must be issued directly to the borrower within 14 days of the later of:

- ❖ the date the balance occurs or
- ❖ the first day of classes of the payment period.

Except for schools prohibited from doing so by ED under the reimbursement method, a borrower can also authorize the school to retain the credit balance on the student's account. This borrower's authorization must be given in writing. However, if the borrower withdraws his or her authorization, the school must issue a check or similar instrument to the borrower as soon as possible, but no later than 14 days after the school receives the borrower's notice.

If a school receives authorization to hold excess funds, the school must identify the student and/or parent and the amount of funds the school holds for the student and/or parent in a subsidiary ledger account designated for that purpose. The school must maintain, at all times, cash in its bank account at least equal to the amount the school is holding for students. Because Direct Loan funds are awarded to students to pay current-year charges, despite any authorization the school might have from a student or parent, the school must pay any remaining balance on loan funds by the end of the loan period.



#### **Laws & Regulations**

- 34 CFR 668.164(e)



#### **Reference**

See the *SFA Handbook : Institutional Eligibility and Participation* for additional information about schools' responsibilities in maintaining credit balances.

## Notifying Borrowers

Before a school disburses Direct Loan funds, it must notify a student of the amount that the student and/or the parent can expect to receive, how and when the funds will be disbursed, and which funds are from subsidized loans and which are from unsubsidized loans.

When a school credits Direct Loan funds to a student's tuition account, the school must notify the borrower (student or parent) of:

- ❖ the date and amount of the disbursement,
- ❖ the borrower's right to cancel all or a portion of the loan or loan disbursement, and
- ❖ the procedures and time by which the borrower must notify the institution that he or she wishes to cancel all or a portion of the loan or loan disbursement.

The school must send the notice to the borrower no earlier than 30 days before and no later than 30 days after crediting the student's tuition account. The notification can be in writing or electronic (such as email).

- ❖ However, if a school sends an electronic notification to a borrower, the school must:
  - ❖ request that he or she confirm receiving the notice and
  - ❖ keep a record of the borrower's confirmation.

## Reporting Disbursements

After disbursing Direct Loan funds, schools must report the disbursements to ED's Loan Origination Center (LOC).

- ❖ All Direct Loan schools report disbursements by creating electronic disbursement records and transmitting them to the LOC.
  - ❖ To create a disbursement record, a school can use ED's free EDEXpress software for PCs or other software and systems (PCs, mainframes, or a combination) that meet ED's specifications. These are published in the *Direct Loan Technical Reference*.



### Laws & Regulations

- 34 CFR 668.165



### Reference

- *Direct Loan Technical Reference*



**Laws & Regulations**

- 34 CFR 685.301(d)



**Take a Look**

- See Chapter 2 for details about Direct Unsubsidized Loans and Direct PLUS Loans.
- See Chapter 4 for details about origination options.
- See Chapter 6 for details about loan origination records and promissory notes.



**For Your Information**

The LOC sends a 30-day warning report to any school that has processed Direct Loans that the LOC cannot book. The LOC produces 30-day warning reports on a weekly basis. The reports list unbooked Direct Loans and the data required to book each loan.



**For Your Information**

The LOC rejects a disbursement record if it arrives at the LOC before the LOC receives and accepts the loan origination record.



**Reference**

- *Direct Loan Technical Reference*

- ◆ All schools must transmit the disbursement record no later than 30 days after the date a Direct Loan was actually disbursed.

When schools transmit disbursement records in a timely fashion, the DLSC can quickly notify borrowers about their loans and what they owe. This is particularly important for Direct Unsubsidized Loan and Direct PLUS Loan borrowers because interest begins to accrue on these loans on the disbursement date.

The LOC will not accept a disbursement record if it has not received and accepted a corresponding loan origination record.

- ◆ This is generally not a problem for Standard Origination schools and Origination Option 1 schools because they are not allowed to draw down Direct Loan funds until the LOC has received and accepted corresponding loan origination records (as well as completed and signed promissory notes).
- ◆ An Origination Option 2 school must send the loan origination record and properly completed and signed promissory note, as well as the disbursement record, to the LOC within 30 days of the disbursement date. Keep in mind that if the LOC is printing the disclosure notice for the school, the origination record must be received by the LOC before or on the same day as the disbursement is made.
- ◆ If the LOC rejects any of three components (loan origination record, promissory note, or disbursement record), the school may be liable for the Direct Loan unless:
  - ◆ any problem is resolved and
  - ◆ the LOC accepts all three components and books the loan.

The school remains responsible for each subsequent actual disbursement until that disbursement is accepted and booked by the LOC.

After a Direct Loan school (regardless of origination option) transmits a disbursement record to the LOC, the LOC returns a disbursement record acknowledgment, which states the record has been accepted or rejected.

- ◆ ED's *Direct Loan Technical Reference* has information about preparing disbursement records for transmission to the LOC, receiving disbursement record acknowledgments from the LOC, and addressing rejected disbursement records.

## Loan Origination Center (LOC) Activities

The LOC processes disbursement records that Direct Loan schools transmit by:

- ❖ making sure that each disbursement record can be matched with a loan origination record in ED's Direct Loan database, and
- ❖ editing the information in the disbursement record using the loan origination record.

If the disbursement record passes the edits, the LOC accepts the record. If the disbursement record does not pass the edits:

- ❖ the LOC rejects the disbursement record, and
- ❖ the school must resolve the error and resubmit the record.

Generally, processing disbursement records takes one business day.

After the LOC processes a disbursement record, it sends an electronic disbursement record acknowledgment to the school. The acknowledgment indicates whether the record has been accepted or rejected.

If the LOC has received and accepted a loan origination record, a completed and signed promissory note, and a disbursement record, it books the Direct Loan. This means that:

- ❖ there is an official and binding obligation between the borrower and ED, and
- ❖ the loan is transferred to ED's Direct Loan Servicing Center (DLSC), which works directly with the borrower until the loan is paid in full or discharged.



### Take a Look

See Chapter 2 for details about discharged loans.

## Direct Loan Servicing Center (DLSC) Activities



### Take a Look

See Chapter 12 for details about the DLSC.



### Take a Look

- See Chapter 2 for details about Direct Loan terms.
- See Chapter 6 for details about promissory notes and disclosure statements.

After a Direct Loan is booked, the DLSC sends a welcome letter to the borrower (student or parent). The welcome letter:

- ◆ informs the borrower that a disbursement has taken place,
- ◆ provides DLSC contact information in case the borrower has questions or needs help, and
- ◆ provides summary information about the borrower's Direct Loan. For example, the letter may provide the borrower's:
  - ◇ total indebtedness for the Direct Loan,
  - ◇ approved loan amount,
  - ◇ disbursement amount, and
  - ◇ disbursement date.

Every time a Direct Loan is disbursed after the loan is booked, the DLSC will send a new notification to the borrower reflecting changes to the loan amount.