

Change Records and Loan Adjustments

Sometimes information about Direct Loan borrowers changes after schools send loan origination records to ED's Direct Loan Origination Center (LOC). For example:

- ❖ a borrower moves to a new permanent address;
- ❖ a borrower decides to increase or decrease the amount of his or her Direct Loan for the academic year;
- ❖ a borrower becomes ineligible for the full amount of a Direct Loan disbursement; or
- ❖ a borrower's eligibility increases and he or she wishes to receive the additional loan amount.

Whenever any data item changes, schools must update information in loan origination records and disbursement records they sent to the LOC.

- ❖ These data items include demographic information about the borrower, such as name, address, Social Security number (SSN), and so forth.
- ❖ They also include adjustments to loan amounts, loan distribution between Direct Subsidized Loans and Direct Unsubsidized Loans, and disbursement dates.

This chapter provides information about Direct Loan change records. It also details how schools handle downward and upward adjustments to Direct Loan amounts and changes to disbursement dates. The chapter concludes with a brief discussion about:

- ❖ returning funds to the Direct Loan Program when students withdraw, drop out, or are expelled; and
- ❖ working with borrowers who decide to cancel all or a portion of their Direct Loans.



Take a Look

- See Chapter 6 for details about loan origination records.
- See Chapter 7 for details about loan disbursement records.



From the Archives

The process of “returning” Title IV funds (including Direct Loan funds) used to be called “refund and repayments.”

Change Records

Whenever a change occurs to the information on a loan origination record after a school has sent the loan origination record to the LOC, the school must update ED's Direct Loan database by creating an electronic change record and transmitting it to the LOC. All changes to a student's anticipated completion date, regardless of the loan year, are made only through the Student Status Confirmation Report (SSCR).

Changes to borrowers' loan records often occur on a daily basis. To maintain the integrity of the Direct Loan Program and good customer service to borrowers, schools must track these changes and report them on an ongoing and timely basis to the LOC.

Schools can use ED's free PC-based software, EDEExpress, to manage the procedures for communicating changes to the LOC. EDEExpress allows a school to:

- ◆ enter changes in the appropriate fields in a borrower's loan origination record or disbursement record (as appropriate),
- ◆ prepare change records for transmission by grouping them into exportable files, and
- ◆ transmit change-record files to the LOC.

ED conducts annual Direct Loan workshops that focus on how to use EDEExpress.

- ◆ The workshops include hands-on practice creating change records.
- ◆ To accompany the workshops, ED publishes a detailed, step-by-step *Direct Loan Training Guide* about using EDEExpress.
- ◆ School representatives who cannot attend a workshop may obtain copies of the *Direct Loan Training Guide* by calling 1-800-848-0978.

Schools that do not use EDEExpress can use other software that suits their systems (PC, mainframe, or a combination system of PC and mainframe) to send change records. However, the software must meet ED specifications.

- ◆ School software options are published in ED's *Direct Loan Technical Reference*. The guide is available at the:



Take a Look

See Chapter 11 for details about the SSCR process.



Take a Look

See Chapter 4 for a brief overview of Direct Loan software implementation options for schools.



Reference

- *Direct Loan Training Guide*



Where to Call

For copies of the *Direct Loan Training Guide*, call 1-800-848-0978.



Reference

- *Direct Loan Technical Reference*

- ◆ Direct Loan Web site and
- ◆ Information for Financial Aid Professionals (IFAP) Web site.

**Web site**

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

Adjustments

There are times, after a school disburses a Direct Loan, that:

- ◆ the amount disbursed or the amount of the entire Direct Loan needs to be increased,
- ◆ the amount disbursed or the amount of the entire Direct Loan needs to be decreased,
- ◆ the actual disbursement date needs to be corrected.

These events are called “disbursement adjustments.” Disbursement adjustments have the same reporting rules that regular disbursements have.

- ◆ After disbursing funds, schools must report actual disbursement information to the LOC.
- ◆ Schools must transmit the disbursement records showing the adjustments as soon as possible, but no later than 30 days after each date of disbursement, adjustment, or deactivation (cancellation).

ED’s *Direct Loan Technical Reference* and *Direct Loan Training Guide* provide detailed technical information on how to make disbursement adjustments.

- ◆ This section of Chapter 8 offers a framework for understanding the process.

Adjusting Disbursement and Loan Amounts

Schools adjust anticipated disbursements (and corresponding approved loan amounts) by creating and transmitting change records to the LOC to replace or update loan origination records that previously had been forwarded and accepted by the LOC.

- ◆ Schools adjust actual disbursements by creating and transmitting disbursement adjustments to the LOC.

**Take a Look**

See Chapter 7 for details about reporting actual disbursements.

**Reference**

- *Direct Loan Technical Reference*
- *Direct Loan Training Guide*

- ❖ The LOC sends the adjustment information on to ED's Direct Loan Servicing Center (DLSC) so that borrowers are billed properly, the correct amount of interest accrues, and so forth.
- ❖ When an actual disbursement adjustment record is sent to the DLSC, the actual disbursement amount is adjusted. The interest is recalculated on the basis of that adjustment; it is recalculated from the date the corrected (actual) disbursement amount was disbursed.

Example

Your Local College (YLC) reports an actual disbursement to Casey of \$1,000, with a disbursement date of July 1, 1999. On August 1, YLC realizes that Casey actually received \$1,500 (instead of \$1,000) and sends adjustment information to report that actually \$1,500 was disbursed. When the DLSC receives the actual disbursement adjustment record for Casey from YLC, the DLSC recalculates the interest that accrued on the entire \$1,500, using July 1, 1999 as the disbursement date. (This is done by backing out the interest that accrued on the originally reported \$1,000 disbursement and recalculating from July 1 forward on the basis of the \$1,500 disbursement.)

- ❖ Because the DLSC treats adjustments to actual disbursements as corrections to the disbursement amount, adjustments should not be used to make later disbursements. If adjustments are used to report later disbursements, a borrower will be charged the wrong amount of interest. The exception: If the actual disbursement previously was adjusted to \$0 (and that was the appropriate thing to do), the actual disbursement may be reactivated as a new actual disbursement. To do this, the school needs to send the DLSC an upward adjustment to the actual disbursement and a new disbursement date. The disbursement date should be the date the money was disbursed to the borrower. Disbursement 1 must be dated before Disbursement 2, and so forth.

Example (continued)

On August 20, 1999 (within 120 days of disbursement), Casey returns the \$1,500 that YLC disbursed on July 1, and YLC adjusts the disbursement to \$0. In September, Casey finds that he needs the money after all, and YLC disburses the money again on September 20, 1999. YLC reports the disbursement to the DLSC by making an adjustment to the actual disbursement and changing the disbursement date to September 20.

Disbursements can be adjusted downward to as little as \$0. When a disbursement is reduced to \$0, it becomes inactivated.

- ❖ Inactivating a Direct Loan disbursement has the same effect as canceling it, with one important difference:
 - ❖ By adjusting the disbursement to \$0, the school has the flexibility to “activate” the disbursement at a later date—that is, adjusting it upward from \$0.

The same principle applies to an entire Direct Loan. The entire amount of a Direct Loan can be adjusted to as little as \$0 by reducing the loan amount approved (and corresponding anticipated disbursement amount[s]) in the loan origination record and actual disbursements in the disbursement record to as little as \$0.

Adjusting an entire Direct Loan to \$0 replaces the cancellation process that was used through the 1998-99 academic year. Beginning with 1999-2000, a Direct Loan will no longer be canceled, it will be inactivated.

- ❖ Basically, inactivation is equal to cancellation, except the loan may be reactivated at a later date, but no later than the end of the loan period plus the 90 days allowed for late disbursements.

Benefits of the Adjustment Process

Making adjustments to Direct Loans instead of canceling them or creating a new loan reduces administrative burdens on schools and borrowers. The reason:

- ❖ Schools are no longer required to create a new disbursement or loan when a borrower decides he or she needs to borrow all of a portion of a canceled disbursement or loan amount. The school may reactivate the disbursement or loan by adjusting up from \$0. This results in changing any affected actual disbursement by adjusting up from \$0, changing any affected actual disbursement date(s), and disbursing the loan. This means that:
 - ❖ the school does not have to create a new loan, and
 - ❖ the borrower does not need to complete and sign a new promissory note.



For Your Information

Although ED no longer “cancels” loans, borrowers are likely to use the word, “cancel.” If a borrower asks to cancel a loan, a school should know that this means making the loan inactive in its system and at the LOC.



Take a Look

See Chapter 7 for details about late disbursements.

In contrast to canceling loans in past years, schools now can simply activate Direct Loans that have been inactivated. This streamlines the process.

Activating a Direct Loan requires:

- ◆ a school to:
 - ◇ collect a written statement from the borrower about how much he or she wants to borrow and
 - ◇ forward the information to the LOC through a loan origination change record and/or a disbursement record (if required) that reflect(s) the upward adjustment; and
- ◆ the LOC to:
 - ◇ review the change record and disbursement record and
 - ◇ forward an acceptance of the change record and disbursement record to the school.

Adjusting Downward

A downward adjustment means reducing the amount of a Direct Loan.

- ◆ Adjustments are handled by the school.
- ◆ The borrower (student or parent) is not liable for loan origination fees or accrued interest on Direct Loan amounts that are adjusted downward.

Examples of events that can result in a downward adjustment on a Direct Loan are:

- ◆ A disbursement record contains an error in the amount of the actual disbursements.
- ◆ A borrower is no longer eligible for all or a portion of his or her Direct Loan. (This includes Direct Loan returns, previously known as “refund and repayments.”)
- ◆ Within 120 days of the disbursement, a borrower requests that all or a portion of his or her Direct Loan be canceled. (This will result in a downward adjustment of all or part of the loan.)
- ◆ A borrower returns Direct Loan funds that the school disbursed to him or her.



For Your Information

There is a difference between making a downward adjustment on a Direct Loan and prepaying a Direct Loan.

- A prepayment occurs 121 days or more after the disbursement date but before the a loan goes into a repayment period.
- The borrower is usually the one who makes the prepayment and is responsible for the loan origination fee and any interest that accrued up to the date he or she makes the prepayments.

To make downward adjustments, Direct Loan schools use a combination of change records and disbursement records, which they forward to the LOC. The chart on the next page shows the steps schools must take.

Adjusting Downward to \$0 (Inactivating a Direct Loan)

As noted earlier in this chapter, adjusting an entire Direct Loan and any actual disbursement to \$0 replaces the loan cancellation process. Once a loan amount and all disbursements have been adjusted to \$0, the loan is considered inactive. Making a loan inactive allows schools the opportunity to reactivate the loan at a future date.

A loan is considered inactive by the LOC when the following data all equal \$0:

- ❖ the approved loan amount in the loan origination record,
- ❖ all anticipated disbursements in the loan origination record, and
- ❖ all actual disbursements in the disbursement record.

Inactive loans do not appear on 30-day warning reports that the LOC sends to schools to show which loans have not been booked. However, inactive loans are listed in a separate Inactive Loans Report from the LOC.

- ❖ The Inactive Loan Report is in a pre-formatted report form that is generated monthly to list inactive loans at the LOC for a specific school.
- ❖ Receiving the report is optional for schools. The LOC sends the report only to schools that request it.
- ❖ For each borrower, the report includes the loan type, borrower ID, and inactive date for each loan.

Because of differences in rounding rules that sometimes occur between the LOC and Direct Loan schools that don't use EDExpress software, it is possible for actual disbursement amounts in ED's Direct Loan database to be off by \$1 from a school's actual disbursement amount. This means that when a school has adjusted the approved loan amount in the loan origination record to \$0, the LOC amount can be \$1 or -\$1. This discrepancy does not prevent the LOC from accepting change records and adjustment disbursement records or considering the loan to be inactive. Since the LOC considers the loan inactive, the information is passed to the DLSC, and the borrower is not charged for any part of the loan.



Take a Look

See page 8-8 for a step-by-step chart for making downward disbursement adjustments.



For Your Information

The LOC sends a 30-day warning report to any school that has processed Direct Loans that LOC cannot book.

- As noted in previous chapters, 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.
- The LOC produces 30-day warning reports each week. The reports list the unbooked Direct Loans at a school and indicates the data required to book each loan.

Steps to Adjust Disbursements and Loan Amounts Downward

Schools that have already disbursed Direct Loans must follow Steps 1 through 5. Schools that have not yet disbursed Direct Loan funds skip Steps 1 through 3, go directly to Step 4 and, then, proceed to Step 5.

Step 1: Create an adjustment to the disbursement record.

- ◆ Adjustments update actual disbursement amount(s) that previously have been transmitted to and accepted by the LOC in a disbursement record(s).
- ◆ Remember: Schools can adjust actual disbursements, including entire Direct Loans, to as little as \$0.

Step 2: Transmit the adjustment to the LOC.

- ◆ The LOC will reject any adjustment disbursement record for which it does not have a corresponding LOC-accepted loan origination record and LOC-accepted disbursement record.

Step 3: Wait to receive the LOC's disbursement acknowledgment.

- ◆ Before taking the remaining steps, the school must have a disbursement acknowledgment from the LOC showing that the LOC has accepted the adjustment disbursement record.

Step 4: Create a change record.

- ◆ The change record should be created to update the anticipated disbursement amount(s) and the loan amount approved in the loan origination record to correspond to the updated actual disbursement amount(s) in the adjustment to the disbursement record (see Step 1).

Step 5: Transmit the change record to the LOC.

- ◆ Once the LOC forwards an acknowledgment accepting the change record, the process for updating the loan downward is complete.
- ◆ Note: If the downward adjustment creates excess cash, the funds must be returned to the LOC unless an Origination Option 2 school chooses to disburse the funds to another borrower within the required time frame.

Handling Direct Loan Funds After Making Downward Adjustments

Origination Option 2 schools may use funds from downward adjustments to Direct Loans to disburse to other eligible Direct Loan borrowers. Funds returned to a school's Direct Loan account because of downward adjustments to student accounts may be held for up to seven days to be disbursed to other eligible students. After seven days, if these funds (called "idle cash") cannot be disbursed, the money must be returned to ED within another three days to avoid holding excess cash.

- ❖ Chapter 10 provides more information about cash management requirements, including excess cash.

Standard Origination schools and Origination Option 1 schools are not allowed to disburse funds that are the result of adjustments to other borrowers. Instead, these schools must return adjustment amounts directly to the LOC within three days of the adjustment date.

Adjusting Upward

An upward adjustment increases the total amount borrowed by a student on his or her Direct Loan. A school is allowed to make an upward adjustment as long as the increase does not exceed:

- ❖ Direct Loan annual and aggregate limits or
- ❖ the borrower's eligibility.

An upward adjustment occurs when a school:

- ❖ reports the wrong Direct Loan amount to the LOC (for example, it reports \$1,000 when the correct amount is actually \$1,500);
- ❖ previously adjusted the disbursement downward and later discovers that this is a mistake (that is, the disbursement should never have been adjusted downward); or
- ❖ correctly adjusted the disbursement to \$0 and later needs to make another disbursement. In this case, the school would also adjust the actual disbursement date.

To make upward adjustments, Direct Loan schools may use a combination of change records and disbursement records, which they forward to the LOC.



Take a Look

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

When a borrower becomes eligible for more money, the school sends a change record increasing the amount of the Direct Loan (provided the school has not made four disbursements on that loan). A school must be able to make a new disbursement on a loan—it can't simply adjust an already existing actual disbursement to accomplish this.

Example

For the fall 1999, Susie was a freshman at Your Local College. She was awarded a Direct Loan totaling \$2,625. YLC disbursed \$1,312 during the fall semester. In January 2000, Susie became a sophomore and was eligible for an additional \$875, which she wanted. YLC sent an origination change record increasing both the total amount of Susie's loan to \$3,000 and the remaining anticipated disbursement of \$2,188. The school then disbursed the remaining money on January 30, 2000.

If, in this example, four disbursements had already been made on Susie's Direct Loan, the school would have had to create a new loan for the additional amount.

The chart on page 8-11 shows the steps most schools must take.



Take a Look

See page 8-11 for a step-by-step chart for making upward disbursement adjustments.

Steps to Adjust Disbursements and Loan Amounts Upward

Step 1: Create a change record.

- ❖ The change record updates the loan amount approved and anticipated disbursement amount(s) in the loan origination record to reflect the increase in the total amount of the loan and amounts that actually will be disbursed.
- ❖ Remember: Schools can adjust the loan amount for the entire Direct Loan and for individual anticipated disbursements from as little as \$0.

Step 2: Transmit the change record to the LOC.

- ❖ The LOC will reject any change record for which it does not have a corresponding LOC-accepted loan origination record.

Step 3: Wait to receive the LOC's change record acknowledgment.

- ❖ Before taking the remaining steps, the school must have a change record acknowledgment from the LOC showing that the LOC has accepted the increased loan amount and anticipated disbursement amounts.

Step 4: Create a disbursement record or an adjustment disbursement record.

- ❖ If the school did not previously disburse Direct Loan funds, it creates a disbursement record.
- ❖ If the school did previously disburse Direct Loan funds, it creates an adjustment disbursement record.

Step 5: Transmit the disbursement (or adjustment disbursement) record to LOC.

- ❖ Once the LOC forwards a acknowledgment accepting the disbursement (or adjustment disbursement) record, the process for updating the loan upward is complete.



Laws & Regulations

- HEA, Section 484B
- 34 CFR 668.22



Reference

- *SFA Handbook: Institutional Eligibility and Participation*
- *The Blue Book*



Take a Look

- See Chapter 10 for details about procedures for returning Direct Loan funds.
- See page 8-6 for details about making downward adjustments.

Returning Funds When Students Withdraw, Drop Out, or are Expelled

When students withdraw, drop out, or are expelled, schools that participate in Title IV programs, including the Direct Loan Program, calculate whether any Title IV funds have to be returned. The calculation for returning funds is defined in the Higher Education Act of 1965, as amended, and Title IV General Provisions regulations. In addition to determining how much must be returned to Title IV programs, the statute and regulations also specify which Title IV programs the funds must go to first.

- ◆ ED's *Student Financial Aid (SFA) Handbook: Institutional Eligibility and Participation* and *The Blue Book* provide step-by-step instructions and worksheets for calculating returns and the order in which funds must be returned.
- ◆ Chapter 10 of this guide provides information on where to send Direct Loan funds that need to be returned to avoid excess cash.

When funds must be returned to the Direct Loan Program, schools make downward adjustments to borrowers' disbursement records.

- ◆ They forward the information to the LOC using change records and adjustment disbursement records.
 - ◇ A description of making downward adjustments begins on page 8-6.
- ◆ After the LOC receives and accepts the change records and adjustment disbursement records, the LOC passes the information on to the DLSC.

Borrowers' Requests to Cancel (Inactivate) Direct Loans

Borrowers sometimes request that all or a portion of their Direct Loans be canceled (inactivated). Borrowers are required to inform schools when they decide to cancel (inactivate) their loans.

- ❖ A school must honor a borrower's request to cancel (inactivate) a Direct Loan if the borrower makes the request by one of the following dates (whichever is later):
 - ❖ within 14 days after the date the school sends a disbursement notice, or
 - ❖ by the first day of the payment period.
- ❖ A school may—but is not required to—inactivate all or a portion of a Direct Loan if the borrower requests that the loan be cancelled (inactivated) 15 or more days after the school sends a disbursement notice or after the first day of the payment period.

A school must inform a borrower in writing or electronically about the outcome of his or her request. If a school notifies a borrower electronically, the school must:

- ❖ confirm that the borrower received the notification and
- ❖ keep a record of the confirmation on file.

Schools update the LOC about inactivated loans by making downward adjustments to the loan amount and disbursements. This process is explained beginning on page 8-6.

Borrowers who decide to cancel (inactivate) their Direct Loans after funds have been disbursed directly to them should return the funds to the school. The schools can, then, return the funds to the LOC.



Take a Look

See page 8-7 for details about inactivating Direct Loans.



Take a Look

See page 8-6 for details about making downward adjustments to Direct Loans.

If the school does not return Direct Loan funds—that is, the school refuses because the borrower did not make the request on time—the borrower must send the Direct Loan funds to the DLSC.

- ❖ The borrower needs to include a letter with the Direct Loan funds that he or she returns to the DLSC stating whether the funds are for a loan payment or for canceling (inactivating) the loan. The letter should indicate which loan or loans the funds should be applied to, and in what amounts (if repayment is being split between loans).
- ❖ If, within 120 days of the disbursement date, the borrower states that he or she is canceling (inactivating) all of his or her Direct Loan, then he or she is not responsible for loan fees and accrued interest.
- ❖ A borrower who cancels (inactivates) a loan after 120 days of the disbursement date is held responsible for loan fees and any interest that accrued during the period in which the borrower had access to the money.