

Chapter 3

Information and Counseling for Borrowers

Essential Questions

- ☞ How can I explain the new program to my students?
- ☞ What is the official name of the program; how should the name appear in our publications?
- ☞ Does the Department have any consumer publications about the Direct Loan Program?
- ☞ Will the Direct Loan Servicing Center send communications to students?
- ☞ Does the Department have publications that explain interest rates and repayment options?
- ☞ Are there any sample repayment schedules?
- ☞ For whom do I provide entrance and exit counseling sessions? When do I hold these sessions?
- ☞ What latitude does a campus have in developing its own entrance counseling materials?
- ☞ How can a student learn about variable interest rates, capitalization, discharge (cancellation), deferments, forbearance, and consolidation?

Getting the Word Out

With any new program, it is important to integrate information into all your existing publications, presentations, counseling sessions, and phone contacts. You might want to consider preparing news releases and newsletters to inform borrowers about the Direct Loan Program and your school's participation.

In communicating about Direct Loans, the official name of the program is the William D. Ford Federal Direct Loan Program. It may be abbreviated as the Direct Loan Program or Direct Loans. Several programs are included under the broad program title. These are

- ☞ the Federal Direct Stafford/Ford Loan Program (also called Direct Subsidized Loans)
- ☞ the Federal Direct Unsubsidized Stafford/Ford Loan Program (also called Direct Unsubsidized Loans)
- ☞ the Federal Direct PLUS Loan Program (also called Direct PLUS Loans)
- ☞ the Federal Direct Consolidation Loan Program (also called Direct Consolidation Loans)

NOTE: The Department does not use the term “Direct Lending Program.” That is a way to describe what happens in Direct Loans, as in “direct lending,” but it is not a program name.

Keep in mind that you may need to give more information to your continuing borrowers about the Direct Loan process and your school’s participation. Students new to borrowing will most likely accept the process as is because they cannot compare it to anything else. Continuing borrowers may be expecting different procedures, so they may need to be “re-educated.”

Explaining New Terms

It may be appropriate for you to identify for your students new words associated with Direct Loans.

- ☞ For example, several years ago, the Federal Perkins Loan was called a Direct Loan. For students coming back to school or for others involved with that program, the name “Direct Loan Program” may be confusing.
- ☞ The term “Servicing Center” may be new to families as well. In some cases, it may be familiar, but the student may have a different understanding. “Servicing Center” under Direct Loans is not synonymous with the term “servicer” under the FFEL Program.

Department Publications

To help you communicate about Direct Loans, the Department has published several booklets that you can give students and parents:

- ☞ *Direct Loans: A Better Way to Borrow* summarizes the Direct Loan Program and includes information on application procedures and loan limits. The booklet also briefly describes the repayment options and outlines the Direct Loan advantages for student and parent borrowers, schools, and taxpayers.
- ☞ *All About Direct Loans* gives students detailed information about the Direct Loan Program, including loan repayment, deferment provisions, and the consequences of default.
- ☞ *Direct PLUS Loan Basics* includes information on the dependent student definition, eligibility criteria, repayment options, options for postponing repayment, and loan consolidation.

You can call the Direct Loan Origination Center at 1-800-848-0978 to obtain copies of these and other publications.

Direct Loan Servicing Center Communications

Your students will receive various communications from their Direct Loan Servicing Center. The appendices contain a set of these communications, which include

- ☞ disbursement confirmation
- ☞ quarterly and annual statements
- ☞ repayment options information

It may be helpful to educate students about what they will receive from the Servicing Center before the communication is sent. For example, students will receive a notice 10 working days after each disbursement has been accepted. A student may incorrectly assume the letter requests loan repayment and may contact your office with questions.

The Appendices to this Guide contains sample correspondence from the Direct Loan Servicing Centers to borrowers. Allow your staff to have sample correspondence available. Be sure your staff understands the notifications' intent and any action the student may be required to take. Although all notifications will provide contact information for the Direct Loan Servicing Center, students are likely to contact the financial aid office first.

Repayment Plan Information

Communicating about the Direct Loan Program includes providing information about repayment options. Several repayment plans have been designed to meet borrowers' unique financial needs. The Direct Loan Servicing Center will provide information on the various repayment plans as the borrower approaches his/her repayment period. It is important to encourage your borrowers to carefully read the information as they choose a repayment option. The charts on the following pages describe the options.

The Department's 1997-98 *Repayment Book* explains in detail the four repayment plans and gives examples of how each plan works. It includes a table that allows borrowers to see at a glance approximately how much they would repay (per month and in total) under each repayment plan (assuming different debt levels). Worksheets and supplementary charts allow borrowers, including Direct PLUS Loan borrowers, to estimate what they would owe under each repayment plan based on their actual circumstances. The *Repayment Book* will help borrowers choose the best repayment plan.

DIRECT LOAN PROGRAM REPAYMENT PLANS

**Standard
Repayment Plan**

- Maximum repayment period of 10 years (not including time in deferment or forbearance)
- Fixed payments of at least \$50 per month
- Number of payments or the fixed repayment amount may be adjusted to reflect changes in the variable interest rate

**Extended
Repayment Plan**

- Fixed monthly payments during an extended period of time that varies with the loan amount (refer to the table on the next page)
- Fixed payments of at least \$50 per month
- Monthly payment amount may be adjusted annually to reflect changes in the variable interest rate

**Graduated
Repayment Plan**

- Payments will start out smaller and increase every two years
- Paid over a period of time that varies with the total loan amount (refer to the table on the next page)
- No scheduled payment may be less than 50% or more than 150% of what the borrower would pay if the loan were repaid under the Standard Repayment Plan
- Monthly payment amount may be adjusted to reflect changes in the variable interest rate

**Income
Contingent
Repayment Plan**

- Maximum repayment period of 25 years (not including periods of deferment or forbearance)
- Monthly repayment amount based on total amount of loans, Adjusted Gross Income (AGI), and family size
- Borrowers repay the *lesser* of (1) the amount they would pay if they repaid their loans in 12 years, multiplied by an income percentage factor that varies with annual income, or (2) 20 percent of discretionary income (AGI minus the poverty level for a given family size)
- Usually in first and second years of repayment, borrowers must submit alternative documentation of income (such as pay stubs) to reflect *current* income

REPAYMENT PERIODS FOR EXTENDED OR GRADUATED PLANS

Total Direct Loan Amount	Time
• Less than \$10,000	Within 12 years
• Greater than or equal to \$10,000 but less than \$20,000	Within 15 years
• Greater than or equal to \$20,000 but less than \$40,000	Within 20 years
• Greater than or equal to \$40,000 but less than \$60,000	Within 25 years
• Greater than or equal to \$60,000	Within 30 years

Entrance and Exit Counseling

One of the most important ways of providing information to borrowers about Direct Loans is through the required entrance and exit counseling processes. You should be familiar with these functions under the FFEL and Federal Perkins Loan programs.

All schools (except those participating in an experimental site contract) must conduct entrance counseling for first-time student borrowers before disbursing a Federal Direct Stafford/Ford Subsidized or Unsubsidized loan to the student borrower. The counseling must be done in person or using a videotape presentation or computer-assisted technology. Counseling sessions conducted by video or computer-assisted technology must meet the same requirements as those sessions conducted in person. If you conduct counseling by video or computer-assisted technology, a counselor must be available to answer questions, the borrower must not be able to circumvent the counseling or leave before completion, and you must document that the borrower completed counseling. Exceptions are made for correspondence school and study abroad programs. In these instances, you must provide borrowers with written counseling materials by mail before you disburse the loan funds.

☞ As part of your school’s quality assurance plan (see Chapter 10 for information about quality assurance plans), you may design entrance counseling to suit your students’ needs. Under this approach, called “alternative counseling,” you must provide all first-time borrowers with written counseling material; target students who are most likely to default and offer them more intensive counseling; and include performance measures, such as withdrawal and default rates and levels of borrowing, to demonstrate the effectiveness of the alternative counseling.

Review your procedures for withholding funds from students who have not participated in entrance counseling. If you already use Electronic Funds Transfer (EFT), you probably have procedures in place. If your current process is based on your office receiving a check, however, and if you operate with a student accounts system, the way you handle entrance counseling tracking may change with Direct Loans. You should consider how your process will indicate that students have met the required entrance counseling activity so that Direct Loan disbursements are authorized correctly.

☞ For example, many institutions with student accounts systems use the FFEL loan check as a mechanism to trigger the review of the entrance counseling requirement. With Direct Loans, the money is credited to the student's account and this trigger no longer exists. Therefore, you will need to design a method to flag students who have not participated in entrance counseling before crediting their accounts.

Exit counseling is required for all loan recipients before they cease to be at least half-time students at your institution, with exceptions for correspondence school students and students who withdraw without notice. While in-person counseling is not required for those two categories of students, you must mail them exit counseling materials.

Counseling Materials

In the FFEL Program, some schools rely on lenders, guaranty agencies, and/or secondary markets to provide loan counseling materials. Keeping borrowers informed of their obligations and rights and responsibilities is essential to the Direct Loan Program's success. To assist Direct Loan schools, the Department will provide all necessary materials for entrance and exit counseling. Participating schools, however, are not required to use these materials but may develop their own if they choose. (If schools develop their own materials, they should refer to section 685.304 of the Direct Loan regulations for counseling requirements.)

The Department's entrance and exit counseling materials consist of booklets as well as companion entrance and exit counseling videotapes. If you order the videos, you will receive them in a vinyl counseling "kit" designed to hold the videos and the entrance and exit Counselors' Guides.

☞ *The Entrance Counseling Guide for Borrowers* covers topics such as loan amounts, interest rates, capitalization of interest, and—briefly—the available repayment plans. Also discussed are deferments, forbearance, and the consequences of default. A sample entrance counseling quiz, a loan history worksheet, and a glossary of common Direct Loan terms are included as well. The Borrowers' Guide includes tips on how students can budget their money (and provides a budget planning worksheet) so that students will have enough to stay in school and to repay their loans later.

- ☞ *The Entrance Counseling Guide for Counselors* offers tips on what to cover in entrance counseling and gives explanations that follow the order of topics in the Borrower's Guide.
- ☞ *The Exit Counseling Guide for Borrowers* explains the Direct Loan Servicing Center's role and covers the various repayment plans in greater depth. The Borrowers' Guide discusses Direct Consolidation Loans, deferment provisions, forbearance, and discharge (cancellation). The publication spells out the consequences of default and offers suggestions on how borrowers can budget once they leave school so they can avoid default. A list of borrower rights and responsibilities is also included.
- ☞ *The Exit Counseling Guide for Counselors* explains what to cover to meet the Department's regulatory requirements, offers tips on organizing counseling sessions, and presents an outline of discussion topics that follows the order of topics in the Borrowers' Guide.

Exit Counseling Support

The Loan Origination Center and the Direct Loan Servicing Centers provide support to assist schools with exit counseling. Schools may receive borrower-specific exit counseling packages from the Direct Loan Servicing Centers if schools make an arrangement via the Loan Origination Center.

- ☞ The school notifies the Loan Origination Center that it would like to receive exit counseling packages for its graduating borrowers. The school must specify the desired time of receipt (i.e., 30, 60, or 90 days prior to the anticipated graduation date)
- ☞ The Loan Origination Center forwards schools' requests to the Direct Loan Servicing Centers through the Department's Central Database.
- ☞ The Direct Loan Servicing Center prepares the exit counseling packages and forwards them to schools through the Department's Central Database.

The Direct Loan Servicing Center will also provide schools with a listing of students who are delinquent on their loan payments (upon request).