

## **Chapter 4**

### **Getting Started: Establishing Direct Loan Eligibility**

#### **Essential Questions**

- ☞ How much can a student receive under Direct Loans?
- ☞ Are Direct Loans prorated?
- ☞ How does a student apply for a Direct Loan?
- ☞ Will the student need to complete any supplemental applications?
- ☞ How is eligibility for Direct Subsidized and Unsubsidized Loans determined?
- ☞ How is Direct PLUS Loan eligibility determined?
- ☞ How much can a parent borrow under the Direct PLUS Loan Program?
- ☞ Who is responsible for the parent's credit check?
- ☞ What happens if a parent is denied a Direct PLUS Loan?
- ☞ How will schools be notified if a parent's credit has been approved or denied?
- ☞ Is a parent required to go through the Direct PLUS Loan application process if it is obvious he or she will be denied?

#### **Some Provisions Common to the FFEL Program**

Most Direct Loan provisions are similar to those of the FFEL Program. For example

- ☞ annual and aggregate loan limits are the same for Direct and FFEL loans (see the loan limits chart on page 4-3)
- ☞ Direct Subsidized and Unsubsidized Loans are tracked using the National Student Loan Data System (NSLDS) and the Financial Aid Transcript, just as FFEL loans are

## **Determining Direct Stafford/Ford Subsidized and Direct Stafford/Ford Unsubsidized Loan Eligibility**

From your perspective, the first step in the loan process is establishing a borrower's eligibility. This process is very similar to the process performed for other Title IV programs in which your school may already participate.

The general sequence of actions is as follows:

- ☞ All students applying for Direct Loans use the paper Free Application for Federal Student Aid (FAFSA), the Renewal FAFSA, or the electronic FAFSA Express. Data may also be entered through EDEExpress at a school. There is no separate Direct Loan application.
- ☞ Dependent students must have their parents complete the appropriate FAFSA sections.
- ☞ The Central Processing System (CPS) conducts required database matches and calculates a student's Expected Family Contribution (EFC) according to the federal need analysis.
- ☞ Schools receive an electronic Institutional Student Information Report (ISIR) from the CPS or a paper Student Aid Report from the student.
- ☞ You determine the cost of attendance and use the EFC the CPS calculates (or an EFC you have adjusted) and estimated financial assistance to determine the student's financial need. Note that you are not required to resubmit corrections or adjustments for recalculation of the EFC to the Central Processing System (CPS) unless the student's Pell grant eligibility is affected.
- ☞ You use the EDEExpress optional packaging module (an operating system function that schools can customize) or another packaging tool (for example, your current packaging procedures) to create an award package.
- ☞ You notify the student of the anticipated Direct Loan award amount through an award letter, generated by the EDEExpress award packaging module, or through your own method of award notification.
- ☞ If the student is selected for verification, he or she must submit appropriate income tax forms or alternative documents. If the student is not selected for verification, you may decide whether to require additional documentation.

**Direct Loan Program: Undergraduate Annual Loan Limits**

<b>Student Year</b>	<b>Length of Program or Final Period of Study</b>			
	Full academic year	2/3 to less than full academic year	1/3 to less than 2/3 academic year	Less than 1/3 academic year
<b>1st year</b> Dependent and Independent Students Subsidized and Unsubsidized	\$2,625	\$1,750	\$875	0
Independent Student Unsubsidized	\$4,000	\$2,500	\$1,500	0
<b>2nd year</b> Dependent and Independent Students Subsidized and Unsubsidized	\$3,500	Proportional Proration	Proportional Proration	Proportional Proration
Independent Student Unsubsidized	\$4,000	\$2,500	\$1,500	0
<b>3rd year or higher</b> Dependent and Independent Students Subsidized and Unsubsidized	\$5,500	Proportional Proration	Proportional Proration	Proportional Proration
Independent Student Unsubsidized	\$5,500	Proportional Proration	Proportional Proration	Proportional Proration

## **Aggregate Loan Limits**

### *Subsidized Loans*

- ☞ \$23,000 for undergraduate study
- ☞ \$65,500 for graduate study, including loans for undergraduate study

### *Combined Subsidized and Unsubsidized Loans*

- ☞ \$23,000 for a dependent undergraduate student
- ☞ \$46,000 for an independent undergraduate student (and for certain dependent students)
- ☞ \$138,000 for a graduate or professional student (including loans for undergraduate study)

## **PLUS Eligibility and Loan Limits**

A parent applicant must fill out a separate Federal Direct PLUS Loan Application and Promissory Note and must meet specific credit requirements to receive a Direct PLUS Loan. If you are at a Standard Origination school, or have requested promissory note assistance, the Loan Origination Center will send an PLUS Loan Application and Promissory Note to the parent based on the information obtained from the loan origination record you create.

If you are at an Option 1 or Option 2 school, the sequence of actions for Direct PLUS loan applications is as follows:

### *Application Process*

- ☞ Using the EDExpress software or a similar methodology that meets the Department's specifications, you may preprint or manually complete the student and school sections before sending the application to the parent. You may choose instead to leave the school sections blank.
  - If you have developed your own institutional application, or if you require an award letter acceptance to be returned to you before processing a Direct Loan request, you could obtain the additional Direct PLUS Loan information through one of these processes. These methods would help if you want to preprint information before sending the application to the parent.

- ☞ You may forward the application with the student's award letter or upon request. The appendices include a sample of the PLUS Loan Application and Promissory Note.
- ☞ The PLUS Loan Application and Promissory Note requests demographic information and references from the student's parent.
- ☞ The parent borrower completes the PLUS Loan Application and Promissory Note, including the loan amount requested, and returns the document to your school. You may not lend more than the requested amount, even if the parent borrower is eligible for more. The parent may not borrow more than the student's calculated Cost of Attendance minus expected financial assistance.
- ☞ You *must* review the PLUS Loan Application and Promissory Note for completeness and accuracy, enter the application data electronically, and submit the PLUS loan origination record to the Loan Origination Center.
- ☞ You *must* export the electronic manifest and mail the original signed completed PLUS Loan Application and Promissory Note to the Loan Origination Center with a paper manifest.

### *Credit Issues*

After receiving the signed completed Direct PLUS Loan Application and Promissory Note, the Loan Origination Center transmits the applicant information to a credit bureau and receives the credit check results in one business day.

The Loan Origination Center evaluates the credit report to determine if the applicant has an adverse credit history, as defined by Direct Loan Program regulations. The Direct Loan Program adverse credit criteria are very similar to the FFEL Program criteria, which provide that a PLUS Loan applicant is rejected if

- ☞ the applicant is 90 or more days delinquent on any debt as of the credit report's date
- ☞ during the five years preceding the date of the credit report, the applicant has been the subject of a default determination, bankruptcy discharge, foreclosure, repossession, tax lien, wage garnishment, or write-off of a Title IV debt

### *Parent Notification*

If an applicant is approved for a Direct PLUS Loan, the Direct Loan Origination Center transmits the credit check results to your school and a Direct PLUS Loan disclosure to the parent.

If an applicant is rejected, the Loan Origination Center notifies the applicant of the denial and includes the following information:

- ☞ the reason for rejection
- ☞ the name of the credit bureau that supplied the data on which the rejection is based
- ☞ an endorser form
- ☞ the name and telephone number of a service representative the applicant may contact for further assistance

The rejected applicant has several options:

- ☞ contact the credit bureau to resolve any inaccurate credit information
- ☞ contact the Loan Origination Center to discuss and document extenuating circumstances
- ☞ reapply with an eligible endorser (the endorser must submit an endorser form to the Loan Origination Center and undergo a credit check)

An endorser is defined as an individual who signs a promissory note and agrees to repay the loan if the parent borrower does not.

### *School Notification*

The Loan Origination Center notifies your school of the applicant's credit evaluation within five business days by means of decision codes in the Direct PLUS Loan origination record.

- ☞ You continue processing loans for Direct PLUS Loan applicants who meet the credit criteria and stop processing for applicants who do not meet the criteria.
- ☞ If an applicant documents that extenuating circumstances exist or resolves erroneous credit information or obtains an endorser who does not have an adverse credit history, you await the Department's decision and process the loan accordingly.

### *Applicants with Adverse Credit Histories*

You will need to develop a policy for handling Direct PLUS Loan applicants with adverse credit histories.

You will want to determine whether the rejected parent borrower wishes to cancel the Direct PLUS Loan application or to seek loan approval based on extenuating circumstances or based on an endorser with no adverse credit history.

- ☞ If the parent borrower chooses not to pursue a Direct PLUS Loan, the dependent student may borrow additional Direct Unsubsidized Loan funds up to the limit for independent students for their grade level (see page 4-3). (Note: Even if the parent borrower qualifies for PLUS, the student may obtain “base” Unsubsidized Loans.) The parent’s loan application must be canceled before you may process an additional Direct Unsubsidized Loan for the student with remaining eligibility. Note that the Direct Unsubsidized Loan would be initiated only at the student’s request.

Other regulatory circumstances that allow a dependent student to borrow Direct Unsubsidized Loans include

- ☞ the parent receives only public assistance or disability benefits
- ☞ the parent is incarcerated
- ☞ the parent’s whereabouts are unknown

The Direct Loan regulations provide the flexibility to assist families who obviously will not meet the credit requirements for Direct PLUS Loans. You can develop an internal process to review a parent’s circumstances so that he or she does not complete the application process unnecessarily.

- ☞ If a parent borrower presents documentation to the school showing at the outset that he or she will not meet the credit criteria (for example, the parent has a tax lien), you can decide immediately to bypass the PLUS application process and award Direct Unsubsidized Loan funds to the dependent student. However, you must document in the student’s file why the student’s parent(s) was precluded from borrowing a Direct PLUS loan.

