

THE
WILLIAM D. FORD
FEDERAL
DIRECT LOAN
PROGRAM

An addendum to the U. S. Department of Education (July 1994) Program Review Guide

September 4, 1996

TABLE OF CONTENTS

INTRODUCTION.....	1
DIRECT LOAN SOFTWARE.....	2
SCHOOL ORIGATION OPTIONS	3
OPTION 2/LEVEL 1 SCHOOLS	3
OPTION 1/LEVEL 2 SCHOOLS	4
STANDARD ORIGATION/LEVEL 3 SCHOOLS	4
THE LOAN ORIGATION CENTER.....	4
THE SCHOOL.....	5
THE DIRECT LOAN PROCESS	6
FEDERAL DIRECT STAFFORD/FORD (SUBSIDIZED AND UNSUBSIDIZED)	6
FEDERAL DIRECT PLUS LOAN.....	7
DISBURSEMENT OF FEDERAL DIRECT PLUS LOAN FUNDS	8
THE PROMISSORY NOTE.....	9
SIMILARITIES/DIFFERENCES IN THE TITLE IV LOAN PROGRAMS.....	9
DIRECT LOAN QUALITY ASSURANCE PROGRAM	11
REVIEWING ACCOUNTABILITY AND RECONCILIATION TEAM (ART) REPORTS.....	13
REVIEWING THE FEDERAL DIRECT LOAN PROGRAM.....	17
DIRECT LOAN REFUNDS, ADJUSTMENTS AND CANCELLATIONS	19
CASH MANAGEMENT	21
FEDERAL DIRECT LOAN BANK ACCOUNT.....	21
DIRECT LOAN SCHOOLS AND THE REIMBURSEMENT SYSTEM OF PAYMENT	22

APPENDICES

APPENDIX A -- DIRECT LOAN PROGRAM PARTICIPATION AGREEMENTS

APPENDIX B -- EXAMPLE OF THE DIRECT LOAN PROCESS

APPENDIX C -- DIRECT SUBSIDIZED/ UNSUBSIDIZED LOAN PROMISSORY NOTE/DISCLOSURE AND ADDENDUMS

APPENDIX D -- DIRECT PLUS LOAN APPLICATION/PROMISSORY NOTE AND ADDENDUMS

APPENDIX E -- DIRECT LOAN PROGRAM REGULATIONS

APPENDIX F -- SUMMARY OF DIRECT LOAN BULLETINS

APPENDIX G -- DIRECT LOAN PUBLICATIONS

APPENDIX H -- ACCOUNTABILITY AND RECONCILIATION TEAM (ART) REPORTS

APPENDIX I -- DIRECT LOAN INTERVIEW QUESTIONS

APPENDIX J -- PROGRAM REVIEW FOCUS ITEMS

APPENDIX K -- MEMORANDUM/COMPLIANCE CAPABILITY OF DIRECT LOAN PROGRAM SCHOOLS

LIST OF ACRONYMS USED IN THIS ADDENDUM

ART	Accountability and Reconciliation Team
COA	Cost of Attendance
CPS	Central Processing System
DLB	Direct Loan Bulletin
DLTF	Direct Loan Task Force
ED	U. S. Department of Education
EFC	Expected Family Contribution
FAFSA	Free Application for Federal Student Aid
FFEL	Federal Family Education Loan
IRB	Institutional Review Branch
ISIR	Institutional Student Information Record
LOC	Loan Origination Center
PLUS	Parent Loan for Undergraduate Students
POS	Payment for Origination Services
QA	Quality Assurance (Direct Loan)
QAP	Quality Assurance Program
SAR	Student Aid Report
SSCR	Student Status Confirmation Report
TIV-WAN	Title IV Wide Area Network

INTRODUCTION

The Student Loan Reform Act of 1993 established a new loan program, the William D. Ford Federal Direct Loan (Direct Loan) Program. Participation in the program began with the 1994-95 academic year with 5 percent of new Direct Loan and Federal Family Education Loan (FFEL) volume, and increased to 40 percent of new loan volume during the 1995-96 academic year.

A Federal Register notice published on January 4, 1994 outlined the operations and procedures during the first year of the program. Final regulations published December 1, 1994 and December 1, 1995 provide program guidance for second, third, and subsequent years of the program.

The Direct Loan Program includes:

1. The Federal Direct Stafford/Ford Loan Program;
2. The Federal Direct Unsubsidized Stafford/Ford Loan Program;
3. The Federal Direct PLUS Program; and
4. The Federal Direct Consolidation Loan Program.

Under direct lending, students and parents may obtain Federal loans for postsecondary education directly through schools from the U.S. Government rather than through banks or other lending institutions. The terms and conditions governing Direct Loans and FFEL Program loans are similar. Later in this chapter, we will discuss the similarities and differences in the Title IV loan programs.

Direct Loan schools must be eligible and certified to participate in the FFEL program, with a current Title IV Program Participation Agreement. In addition, the schools must enter into a Direct Loan Agreement and have a current Title IV Wide Area Network (TIV-WAN) agreement.

The Direct Loan process is accomplished electronically. Most of the information transmitted by schools will be in an electronic format. **The exception to this is the transmission of the Federal Direct Stafford/Ford promissory notes and Federal Direct PLUS application/promissory notes which are paper documents that Option 1 and Option 2 schools mail to the Loan Origination Center (LOC).** The way that a school electronically accomplishes these processes may vary based upon whether the school is using the Department's software (EExpress), a customized system (programs created by a vendor or the school), or a combination of EExpress/custom processing.

DIRECT LOAN SOFTWARE

Whether the school uses EDEExpress or a custom software, the Institutional Review Specialist (Reviewer) can request specific reports and/or screen printouts for individual students, or view the information on the computer that will assist in the review process. **An essential screen printout is the loan origination record.**

Schools participating in the Direct Loan Program in 1994-95, the first year of the program, used the DOS version of EDEExpress. This gave them the option for using the “Archive” function for closed-year information. When a school uses this function, a single record or a group of records is taken out of the school’s system and put on tape or disk. Archiving copies records to a floppy diskette (or tape) and deletes them from the database. This is done in the DOS version of EDEExpress as follows:

- Select Archive Records from the Utilities menu
- Select Student Data, press enter
- The Archive Data Base Records screen displays and the school enters a range of dates to archive.

To retrieve the records, the “Restore Records” function from the Utilities menu is used, allowing you to access archived records by restoring them to the database. Once a record is restored, it can be accessed using the regular EDEExpress functions. During 1994-95, the school would be required to have maintained the software in order for the information to be accessed.

Further information is found in the EDEExpress Users Guide for 1994-95.

Schools participating in the Direct Loan Program and using EDEExpress in 1995-96 used the DOS version initially, but had the option of converting to the new Windows version of EDEExpress before the end of the school year. In 1996-97 all schools using EDEExpress are required to use Windows. There is no longer an option for the Archive function in the Windows version. However, due to record retention requirements, schools must still use a back-up package which can be either the one that is part of EDEExpress or another one of the schools’ choosing.

Since the software program and the records have been backed up, the disks or tape will be accessed just as they were in the original system.

SCHOOL ORIGATION OPTIONS

The December 1, 1994 regulations (34 CFR 685.102(b)) define school origination options. The definition of these options was modified with the publication of the December 1, 1995 regulations. Schools that meet specific criteria may be designated to participate in the Direct Loan Program as Option 2, Option 1, or Standard Origination. Those schools previously participating as Level 1 are now known as Option 2. Level 2 schools are now referred to as Option 1, and schools that were designated as Level 3 or Alternative Origination are now under the Standard Origination option.

Criteria for selection of schools to participate and to originate loans for academic years 1996-97 and beyond are in Section 685.401 and 685.402 of the regulations published December 1, 1994. The following chart describes the functions performed by the school and the LOC for each origination option.

Functions	Option 2	Option 1	Standard
Create loan origination record	School	School	School
Transmit record to LOC	School	School	School
Prepare promissory note	School	School	LOC
Obtain completed/signed promissory note from borrower	School	School	LOC
Transmit promissory note to LOC	School	School	N/A
Determine funding needs	School	LOC	LOC
Initiate drawdown of funds	School	LOC	LOC
Receive funds electronically	School	School	School
Disburse loan to borrower	School	School	School
Create disbursement record	School	School	School
Transmit disbursement record to LOC	School	School	School
Reconcile on monthly basis	School	School	School

NOTE: Funds received for students at Option 2 schools may be used for other students, if the initial eligible student becomes ineligible. However, funds received for students at Option 1 or Standard Origination schools are student specific. Therefore, if a student becomes ineligible, those funds MUST be returned to the LOC.

OPTION 2/LEVEL 1 SCHOOLS

Option 2/Level 1 schools are responsible for the complete loan process, including management of the promissory note process and drawdown functions. These schools received a Payment for Origination Services (POS) of \$10 per borrower based on a booked, reconciled loan.

OPTION 1/LEVEL 2 SCHOOLS

Option 1/Level 2 schools perform the same promissory note functions as Option 2 schools, but do not determine their funding needs or drawdown their own funds. Option 1 schools received POS payments of \$7 per borrower.

STANDARD ORIGINATION/LEVEL 3 SCHOOLS

Schools that participate under Standard Origination receive promissory note and funds management assistance from the LOC and perform all other school functions. These schools **did not** receive POS payments.

Option 1 and 2 schools were paid the appropriate fee for any borrower whose first disbursement was reconciled during the academic year. **Schools were reimbursed by a separate ACH/EFT payment several times per year.**

The Reviewer must determine if the POS was deposited into the same account as the Direct Loan funds requested. If so, the account could appear to have had excess cash, when in fact the POS payment would be funds that belong to the school.

NOTE: The Department ceased making POS payments for loans that were originated after April 26, 1996. The last POS payments are scheduled to be made in September 1996.

THE LOAN ORIGINATION CENTER

Direct Loan functions not specific to the school are performed by the LOC

The Loan Origination Center-

- Receives, reviews, and accepts or rejects loan origination records, promissory notes, actual disbursement records, cancellations and adjustments;
- Prints and distributes promissory notes for Standard Origination schools, and prints notes for Option 1 and Option 2 schools if requested. (For Option 1 and 2 schools, promissory notes typically are returned to schools to distribute and collect. However, in some cases, the LOC has printed, distributed and collected promissory notes for Option 1 and 2 schools.)
- Conducts credit checks for Federal Direct PLUS loan borrowers;
- Provides customer service to borrowers and schools;

- Assists schools in resolving reconciliation problems;
- Processes consolidation loans and provides consolidation information to borrowers;
- Determines the schools' (Option 1 and Standard Origination) financial needs and requests funds based on the schools' reported anticipated disbursement date; and
- Performs all related government accounting and reconciliation functions.

“BOOKING” a loan indicates that an official and binding obligation has been made between the borrower and the Federal government. The three items required for a loan to be “booked” are:

- 1. Loan origination record;**
- 2. Promissory note; and**
- 3. Disbursement record.**

The Loan Servicing Center-

- Services the loan during in-school, grace, and repayment periods and performs all due diligence requirements and deferment certifications;
- Sends welcome letter to borrowers with each disbursement;
- Provides loan statements and arranges initial payment plan, as well as changes to payment plans;
- Collects the loan payments; and
- Provides customer service to borrowers.

THE SCHOOL

A school participating in the Direct Loan Program must:

- Determine borrower eligibility and loan amounts;
- Originate loan records;
- Obtain signed promissory notes from borrowers (Option 2 and Option 1 **only**);
- Send signed promissory notes (Option 2 and Option 1 **only**) and transmit loan origination records to LOC;

- Requests funds (Option 2 **only**);
- Receive Direct Loan funds from ED;
- Verify student enrollment status;
- Disburse loans to eligible borrowers;
- Report disbursements to the LOC;
- Provide entrance and exit counseling to students;
- Complete and submit SSCR;
- Implement a quality assurance system, as established by ED; and
- Matches all cash and loan detail records with the LOC.

NOTE: For a complete listing of school functions see 34 CFR 685.300.

THE DIRECT LOAN PROCESS

FEDERAL DIRECT STAFFORD/FORD (SUBSIDIZED and UNSUBSIDIZED)

- Student completes the FAFSA (paper or electronic);
- CPS conducts database matches and calculates an EFC;
- School receives an ISIR from the CPS or a SAR from the student;
- School uses the EFC (calculated or adjusted) to determine student's need;
- If the student is awarded a Federal Direct Loan (subsidized or unsubsidized), it may be included in the student's initial award package and listed on the award notification that is provided to the student, or the loan may be awarded later at the student's request;
- A student at an Option 2 or Option 1 school signs and returns the promissory note to the school. For students attending Standard Origination schools, promissory notes are mailed from the LOC directly to the student, and returned to the LOC by the student;
- School creates a loan origination record (all schools perform this function) and transmits it to the LOC. This record contains demographic and financial information,

loan period (start and end date), grade level, loan amounts (approved and requested), and anticipated disbursement dates;

Option 2 schools **may** submit loan origination records prior to transmitting the actual disbursement information and promissory note, or simultaneously. Origination records and promissory notes for Option 1 and Standard Origination schools must be received and accepted by the LOC before funds are sent to the school for disbursement to the borrower.

NOTE: Direct Loan schools certify loan information by means of the origination process. The December 1, 1995 regulations, 34 CFR 685.301(a)(5), effective July 1, 1996, clarify the origination date. The date of loan origination is the date a school creates the electronic loan origination record.

- LOC receives and processes the loan origination record, and transmits an acknowledgment to the school;
- School (Option 2 only) or LOC determines funding needs and initiates the drawdown of funds;
- School returns excess cash and refunds;
- School receives funds electronically and disburses the funds to the borrowers;
- School creates a disbursement record and transmits it to the LOC;
- School matches all cash and loan detail records with the LOC;
- School submits a monthly reconciliation batch to the LOC.

FEDERAL DIRECT PLUS LOAN

- School sends a Federal Direct PLUS Loan Application/Promissory Note to the student's parent(s) (with award notification or upon request);
- Borrower completes the application and returns it to the school;
- School completes its section on the application when it is returned, creates a loan origination record, and transmits it to the LOC;
- LOC transmits the applicant's information to a credit bureau and receives the results;

- LOC evaluates the credit report to determine if the applicant has an adverse credit history;
- If approved, the applicant receives the results of the credit check and a Direct PLUS disclosure from the LOC;
- If rejected, the LOC notifies the applicant of the reason for the denial, the name of the credit bureau that supplied the information, and an endorser form. The rejected applicant may either submit the endorser's information to the LOC or demonstrate that extenuating circumstances exist. The applicant should notify the school of his/her intentions within the timeframe established by the school;

NOTE: Students may no longer be endorsers on Federal Direct PLUS loans (see Direct Loan Bulletin (DLB)-96-2 (February 1996)).

- LOC notifies the school of the acceptance or rejection of the applicant's PLUS application;
- If the applicant plans to reapply with an eligible endorser, the loan process begins again with the applicant and endorser submitting a revised Federal Direct PLUS Loan Application/Promissory Note to the LOC;
- LOC notifies the school of the results of the endorser's application;
- If the parent borrower chooses not to pursue the Federal Direct PLUS Loan with the endorser, the loan **MUST** be canceled before the school may process a Federal Direct Unsubsidized Stafford/Ford Loan for the student. No further documentation is required prior to the awarding of the Federal Direct Unsubsidized Stafford/Ford funds. All that is needed is the acknowledgment showing denial. The Federal Direct Unsubsidized Stafford/Ford Loan would be initiated only at the student's request.

DISBURSEMENT OF FEDERAL DIRECT PLUS LOAN FUNDS

If a school has student accounts, it must first post Federal Direct PLUS Loan funds directly to the student's account for tuition and fees, and room and board (if contracted with the school) (34 CFR 668.165(a)(4)). With authorization by the parent, funds may be credited to the student's account for other allowable charges owed to the school by the student (34 CFR 668.165(d)(ii)).

If the student's financial obligations are paid in full and any funds remain (credit balance), the school must pay the balance directly to the parent borrower, obtain authorization from the parent borrower to pay the balance directly to the student, or obtain authorization for the credit balance to remain on the account to be used to pay future charges (34 CFR 668.165(b)).

Entrance and Exit Counseling is **NOT** required for Federal Direct PLUS Loan borrowers and these borrowers are not eligible for the Income Contingent Repayment Plan.

THE PROMISSORY NOTE

Option 2 and Option 1 schools may print the promissory notes or request that the promissory notes be printed by the LOC. Both options require the borrower to return the note to the school.

Option 2 schools should send the promissory note to the LOC before or immediately after the first disbursement of the loan. **Option 1** schools **must** send the promissory note to the LOC **before** funds will be sent to the school for disbursement to the borrower. For **Standard Origination** schools, the LOC prints all promissory notes, sends the note directly to the borrower, and the borrower returns the note to the LOC.

NOTE: Effective July 1, 1996, schools are required to submit origination records, promissory notes (except Standard Origination), and disbursement records to the LOC no later than 30 days following the date of each disbursement (34 CFR 685.301(d)).

It is to the school's advantage to submit promissory notes frequently because the school retains liability for the loan until the promissory note is received and accepted by the LOC. When the LOC accepts the promissory note, ED takes responsibility for the note and the school's liability for the note ends.

SCHOOLS ARE NOT REQUIRED TO KEEP COPIES OF PROMISSORY NOTES.

SIMILARITIES/DIFFERENCES IN THE TITLE IV LOAN PROGRAMS

Most of the requirements for the Federal Direct Loan Program are similar to or the same as those for the Federal Family Education Loan Programs. However, there are some differences between the two programs. The main difference is who lends the money.

The chart on the following page identifies the similarities and differences in the Title IV loan programs.

SIMILARITIES AND DIFFERENCES IN TITLE IV LOAN PROGRAMS

LOANS SUBJECT TO:	DIRECT LOAN	FFEL	PERKINS
30-Day Delayed Delivery	X	X	X (if Default Rate ≥ 15%)
Entrance & Exit Counseling	X (except PLUS)	X (except PLUS)	X
Prorations	X	X	--
Student Eligibility	X	X	X
Holding of Loan Proceeds (up to 45 days)	--	X	--
Totally Electronic Process	X	--	--
Loan Documents			
Stafford Application	X (FAFSA)	X	--
PLUS Application	X	X	--
Promissory Notes	X	X	X
Late Disbursement	X	X	X (as of 7/1/95)
Return of Refunds	X (LOC)	X (Lender)	X (Fund)
Return of Federal Excess Cash	X	--	X
Disbursement of Funds	X	--	X
Delivery of Funds	--	X	--
Deferments	X	X	X
Forbearance	X	X	X
Consolidation (Out -of- School)	X	X	--
Consolidation (In-School)	X	--	--
Annual & Aggregate Loan Limits	X	X	X
Cohort Default Rate Calculation	X (as of 7/1/96)	X	X
SSCR	X	X	--
Sale of Loans	--	X	--
Reconciliation of Federal Funds	X	--	X
Federal Funds Bank Account	X	--	X
Repayment Plans			
Alternative	X	--	--
Standard	X	X	--
Graduated	X	X	--
Extended	X	X (consolidation only)	--
Income Sensitive	--	X (except PLUS)	--
Income Contingent	X (except PLUS)	--	--
School Established	--	--	X
Multiple Disbursements	X	X	X (over \$501)

DIRECT LOAN QUALITY ASSURANCE PROGRAM

The quality assurance (QA) component of the Direct Loan Program is a requirement of all institutions participating in the program. QA is included in the statute authorizing the Direct Loan Program as well as in the regulations. Specifically, it is included in **34 CFR 685.300(b)(9)**, as part of the Program Participation Agreement.

The goal of QA in the Direct Loan Program is to “promote excellence in institutional administration of direct lending.”

Through a cyclical process of self-evaluation, identification of system deficiencies, and resolution of system deficiencies, QA will enhance institutional performance in the loan program, thereby resulting in improved institutional stewardship of Federal funds, as well as improved award accuracy.

QA is a five-step process which is implemented by institutions in two phases. Below is a brief description of the institutional process, followed by the requirements of each of the phases.

The QA Process

Step One - Setting the Direction

This step emphasizes the importance of developing an overall strategy for establishing a QA system and understanding the needs and expectations of students. It entails mobilizing the support of institutional leaders and assessing the resources that will be available to conduct QA activities.

Step Two - Involving Staff

This step addresses the importance of identifying the appropriate staff members within the financial aid office and in other offices on campus who should be involved in initiating and maintaining the QA system. It also emphasizes the importance of clear communication, teamwork, and recognizing staff contributions to the process.

Step Three - Assessing Operations

This step describes how to conduct an evaluation of office operations using an assessment instrument. It provides a method to periodically evaluate financial aid procedures against Federal requirements, as well as a method to identify areas in need of improvement.

Step Four - Taking Action

This step helps institutions use the results of the assessment to remedy areas of vulnerability and implement new procedures to improve financial aid operations. It assists financial aid administrators in scheduling and monitoring improvement activities.

Step Five - Reviewing Progress

This final step describes both the use of the assessment results as a baseline for continuous improvement and the recurring assessment activities institutions will perform in subsequent years. It also provides an overview of networking opportunities with other direct lending institutions and required reporting to ED.

The Implementation Phases

QA is implemented in two phases; Phase I is required of all participants in their first year and Phase II is required of all participants in subsequent years. Please keep in mind that the QA System allows institutions great flexibility - institutions will implement QA according to: 1) institutional needs, 2) student needs, 3) available resources, and 4) institutional philosophy. In addition, please note that Phase I is **qualitative** in nature while Phase II adds a **quantitative** component.

Reviewers cannot concern themselves with variations in the individual systems encountered. Some institutions will have unlimited resources and a highly developed QA system; other institutions will have a “bare bones” system. The Reviewer has one main concern: Is the institution complying with the minimum requirements the Department has set forth?

The following actions are required by institutions for implementation. Please refer to **the Direct Loan Quality Assurance Planning Guide** for additional information concerning QA.

NOTE: Direct Loan is currently working on clarifying QA requirements and on communicating this information to schools.

Phase I

- Creation of a QA Master File
- Performance of a Management Assessment
- Creation of a Management Action plan
- Submission to ED of the **Mid-Year Progress Report** no later than January 15
- Submission to ED of the **Quality Assurance Certification** by July 15
- Maintenance of all QA documentation in the QA Master File

Phase II

-Continued performance of the QA cyclical process (see the five steps under QA Process)
-Implementation of quantitative measurement reports to provide more specific analysis in the QA process. The preliminary guidance from ED is that such reports should be run at least twice a year and incorporated into the QA process.

NOTE: The Reviewer may encounter an institution which has met the minimum requirements of QA and thus has no compliance issues, but whose QA system needs improvement to truly make a difference in the institution's administration of the Direct Loan Program. In such instances the Reviewer should include an observation in the program review report referring the institution to the Direct Loan staff for technical assistance.

REVIEWING ACCOUNTABILITY and RECONCILIATION TEAM (ART) REPORTS

The Accountability and Reconciliation Team (ART), a section of the Direct Loan Task Force, is responsible for monitoring and ensuring that specific cash management and reporting processes are being achieved by the Direct Loan schools; and when problems arise, determining the appropriate resolutions. The ART works very closely with AFMS, client account managers, Direct Loan systems and Direct Loan policy; and, two of the Department's contractors, CDSI (the Loan Origination Center or LOC) and NCS (the developers of EDExpress which includes the Direct Loan software module.) The ART coordinates the efforts of all parties (including the contractors) involved with monitoring the reporting of cash and loan transactions and records by institutions.

The ART created a school database and developed certain triggers to evaluate Direct Loan schools progress in accounting for Program funds. The triggers being used to identify problems at the schools are large adjusted cash balances; low percentage of disbursements to drawdowns and low percentage of booked disbursements to total disbursements.

The ART separated the process commonly referred to as "reconciliation" into two functions:

1. cash management - the reporting of disbursements
2. data matching - comparison of school data with the LOC's records

The ART found that by separating the "reconciliation" processes, schools are better able to understand what is required of them. The team is revising the "Reconciliation Guide" to reflect this change in terminology. The guide will be available at a later date.

If schools submit their loan origination records, promissory notes and disbursement records in a timely manner, creating booked loans, data matching with the LOC will become more efficient.

As schools are being monitored for the timeliness of submission of disbursements, ART also monitors the data match. The ART considers the number and type of unreconciled records and the timeliness of information (the aging of data submissions - i.e.; 30, 60, 90 days .)

The ART also makes recommendations for system changes and revisions to, or the development of, new procedures, training programs and materials in order to improve accountability and reporting for the schools. In addition, the team works with schools to ensure that they comply with the new regulatory requirement for submitting all records necessary to book loans within 30 days of the date of disbursement (effective July 1, 1996.)

Upon request, the ART works with the Institutional Review Branch (IRB) to assist with its program review responsibilities. The ART provides documentation and/or information to program reviewers regarding the schools selected for review and their management of Direct Loans. This information is shared with the program reviewer(s) prior to the school's site visit.

If any of the ART reports indicate that there may be ongoing problems with Direct Loans at the school, the reviewer will expand the scope of the review.

Currently, there are three reports the ART uses to evaluate an institution's cash management. These reports are:

1. Tracking Summary Report

The Tracking Summary Report is available only for those institutions that have been identified through the established triggers. This report includes the following information (See Appendix H, page H-1):

- School name and Direct Loan ID number
- Region
- ART contact
- whether or not the school is an Historically Black College or University (HBCU)
- which third party servicer the school is using, if any
- school's origination level
- whether or not the school has a high adjusted cash balance (marked with an "X")
- whether or not the school has a low percentage of disbursements to drawdowns (marked with an "X")

- reconciliation status codes:
 - A No reconciliation attempt
 - R Reconciling currently
 - NCS NCS software issues
 - T Tardy submission of reconciliation attempts
 - M Mainframe issues
 - D Database issues
 - LR Transmission problems
 - B Batching problems
 - W Drawdown allocation problems
 - S School software problems
 - P Third party servicer problems
 - O Other miscellaneous problems
 - C School closed

The next section of the report is a detailed description of the ART’s log of schools under review. The log is dated in reverse chronological order. This part indicates the adjusted cash balance and percentage of disbursements to drawdown for the month prior to the date indicated. In addition, there is a written summary, entitled “Update” which discusses information about the school’s processing/reporting problems. In this part of the report, other miscellaneous issues/problems are discussed; such as, training issues, unusual computer problems and staffing issues.

2. Cash Drawdown and Disbursement Activity Report

This report can be made available in two different formats (see Appendix H, pages H-2 and H-3):

- I. Produced for a single month which can be sorted by either:
 1. percentage of disbursements to drawdowns
 2. adjusted cash balance
- II. Produced for multiple months to compare the same information listed above.

These reports include the following information:

- School name and Direct Loan ID number
- State and region
- End of month date
- Cash balance
- Net drawdown for the month
- Outstanding unbooked disbursements
- Adjusted cash balance

- Cumulative net drawdown (for prior month)
- Cumulative disbursements
- Percentage of disbursements to drawdowns

3. Booked Loans Report

This report indicates the percentage of total amount of disbursements of booked loans to total amount of disbursements. The report includes the following information (see Appendix H, page H-4):

- School name and Direct Loan ID number
- State and region
- End of month date
- Outstanding dollar amount of disbursements of unbooked loans
- Dollar amount of disbursements of booked loans
- Total dollar amount of disbursements of all loans
- Percentage of total amount of disbursements of booked loans to total amount of disbursements

To assess an institution's data matching activities, the ART uses the following two reports:

1. Nightly Reconciliation Activity Report

This report provides detailed information about a school's number of unreconciled records and why these records are considered unreconciled (See Appendix H, page H-5). The report is based on the school's most recent data matching (reconciliation) attempt and indicates information regarding both loan and cash detail records.

2. School Reconciliation Aging Report

This aging report shows the dollar amount and number of unreconciled disbursements and drawdowns as follows (See Appendix H, page H-6):

- current
- 31-60 days
- 61-90 days
- 91 - 150 days
- over 150 days

REVIEWING THE FEDERAL DIRECT LOAN PROGRAM

The review process for the Federal Direct Loan Program is similar to that of the FFEL Programs. Therefore, Reviewers should follow the same procedures normally used in the program review process. For review preparation guidance, see Chapter 2/Section B of the July 1994 Program Review Guide. In addition, Reviewers must:

- Determine institution's level of origination (Option 2, Option 1, or Standard Origination) and the number of years the school has participated in the Federal Direct Loan Program. (Note: PEPS continues to show origination levels, not options. Thus, a "2" assigned during 1995-96 means that the school is Level 2. A "2" assigned for the 1996-97 continues to mean Level 2 -- now called Option 1.)
- Determine if the school is an Experimental Site school. If so, determine if the experiments have an impact on Direct Loans.
- Review and discuss the ART reports. You should review the current award year when the ART reports indicate problems, even if it is not your normal practice to review the current award year.
- Generate the Statistical Sample for each award year. If the school can produce an unduplicated listing of Title IV recipients (including Direct Loans), Reviewers should always use that listing to generate the statistical sample. Reviewers should keep in mind that not all schools participate fully in the Direct Loan program; i.e., some students may receive Federal Direct Loans while others are receiving FFELs. Although an institution may participate in both programs, a borrower **may not** receive both types of loans at once. If there are no Federal Direct Loan recipients in the 15 files (per award year) selected for the judgmental sample, Reviewers should select additional students from the statistical sample pool. Additional information regarding statistical sampling can be found in The Statistical Sampling Handbook.

ON-SITE REVIEW PROCEDURES

Reviewers should follow all of the on-site review procedures listed in Chapter 3 of the Program Review Guide. In addition, Reviewers must:

- Conduct interviews with appropriate school officials. Additional questions regarding the Federal Direct Loan Program are located in Appendix I.

PROGRAM REVIEW FOCUS ITEMS

Reviewers should refer to the program review focus items and proceed with review of all applicable items found in Chapter 4 of the Program Review Guide. **NOTE: Appendix J of this guide contains an updated list of Program Review Focus Items. Those focus items that will require examination of Direct Loan-specific records are shaded. The actual text of the Focus Items will be updated to incorporate Direct Loans in the near future.** In addition:

- For students in the sample that are Federal Direct Loan recipients, Reviewers must retrieve the student's **loan origination record** to obtain the information that is usually collected on a FFEL application; e.g., loan amounts (approved and requested), grade level, loan period, enrollment status, student's dependency status, promissory note status, etc.

NOTE: Reviewers must require the school to produce screen printouts of the loan origination records for students in the sample and verify the data on the loan origination record.

- Reviewers must check the Actual Disbursements screen (page 3 of the loan origination record) to verify disbursed amounts and dates with the amounts and dates on the student's account record/ledger card.

NOTE: Check for the 30-day delayed delivery requirement for first-year, first-time borrowers (34 CFR 685.303(b)(4)). Experimental site schools may be exempt from the 30-day delayed delivery, multiple disbursements, and entrance counseling requirements. Also, unless the school has obtained authorization to hold a credit balance, check to determine if the credit balance is provided to the student/parent within the required time frame i.e., 21 days (1995-96) or 14 days (1996-97 and thereafter) of the later of : (1) the date the balance occurs, (2) the first day of classes, or (3) the date the student rescinds any previously granted authorization (34 CFR 668.165(b)(2)(i)). **NOTE: DLB-96-5 (February 1996) clarifies the date a Direct Loan disbursement is made.**

- Since schools are **NOT** required to retain promissory notes (and Standard Origination schools do not handle promissory notes at all), Reviewers should review the loan origination record (page 1) to determine if the promissory note has been accepted by the LOC. If so, this should be noted on the screen by an "A" at the Promissory Note Status line.

NOTE: An "A" indicates that the LOC has received and accepted the note and the school's liability for the note ends. If the status line indicates an "E," this means that the note has been rejected by the LOC. If rejected, the note must be corrected or reprinted and/or resubmitted to the LOC.

- Reviewers must check for entrance and exit counseling. Entrance counseling is not required for Direct Loan borrowers who received this counseling as a part of the FFEL program. Neither entrance nor exit counseling is required for Federal Direct PLUS loan borrowers.
- Reviewers must determine whether the institution is complying with the minimum Direct Loan QA requirements the Department has set forth.
- Reviewers must check SSCRs.

DIRECT LOAN REFUNDS, ADJUSTMENTS and CANCELLATIONS

As required in all other Title IV programs, if a Direct Loan refund is due, the school must first determine which refund policy will result in the largest refund; i.e., Accrediting Agency, State Agency, or Statutory Pro Rata refund policies. If there is no Accrediting Agency or State Agency refund policy, the school is required to complete only the Statutory Pro Rata refund calculation (if applicable).

NOTE: Statutory Pro Rata is required if the student is attending the school for the first time, and withdraws on or before the 60% point of the enrollment period. If none of the three refund policies above are applicable, then the school must calculate and refund the largest of the institutional refund policy or the Federal Refund Policy (see the November 29, 1994, General Provisions regulations (34 CFR 668.22(b)) which replaced Appendix A).

Required refunds in the Direct Loan Program must be paid within 30 days as opposed to the 60 days in the FFEL Program (34 CFR 668.22(j)(4)).

When the results of a refund calculation determine that funds need to be returned to the Direct Loan Program, funds are returned in the following manner:

1. If the event causing the return of funds occurred within 120 days from the date of the disbursement, schools need to cancel or adjust the actual disbursement electronically. Option 1 and Standard Origination schools must return the funds to the LOC. Option 2 schools may either return the funds to the LOC or disburse them to another eligible borrower.

OR

2. If the event causing the return of funds occurred 121 days or more after the date of disbursement, all schools, regardless of their levels of origination, need to send a check to the LOC to be applied as a payment to the borrower's account.

Refunds within 120 days:

If the event occurs within 120 days of the actual date of disbursement, the disbursement should be adjusted or canceled by the school, thereby reducing the amount of the loan borrowed. An adjustment is for a partial amount of the disbursement. This allows the borrower to be assessed interest and fees for only the adjusted loan amount. A cancellation must be for the entire amount of the disbursement. The borrower is not assessed any interest or fees for a loan canceled within 120 days from the date of the disbursement. When the school makes the cancellation or adjustment to the loan record, the amount of the loan is reduced, and the school's cash-on-hand balance increases by the amount of the adjustment or cancellation.

For example, if a student had been paid a \$1,000 second disbursement, and a \$400 refund is due, the actual second disbursement would be reduced to \$600. When this occurs, the school's cash-on-hand balance increases by \$400.

Adjustments and cancellations at **Option 1** and **Standard Origination** schools will cause *idle* Federal funds. Since these funds have already been disbursed to the borrower, they do not constitute excess cash as defined by the cash management regulations (34 CFR 668.166). Therefore, these funds are not subject to the three-day rule or the excess cash tolerances. However, if they are the result of a refund, they must be paid within the 30 day requirement. Since funds for Option 1 and Standard Origination schools are student-specific (**cannot be used for other borrowers**), they must be returned to the LOC by ACH, Fedwire, or check. In the case of a refund returned by ACH or Fedwire, the date of the debit to the school's bank account must be within 30 days of the school's knowledge of the need to calculate a refund. If the funds are returned by check, the date on the check must be within 30 days of that event.

Adjustments and cancellations at an **Option 2** school are handled in the same manner as Option 1 and Standard Origination schools, with one exception. These schools may return these funds to the LOC or disburse them to another eligible borrower. If the funds are disbursed to another eligible borrower, compliance with the 30 day return of funds must be documented in the school's fiscal records.

When an **Option 2** school does not return the funds to the LOC (which results in idle cash), draws down additional funds, and does not use all of the combined funds within the required timeframe, the result will be excess cash.

Refunds occurring after 120 days:

Regardless of the level of origination, if the event occurs 121 days or more after the actual date of disbursement, the school should not make an adjustment or cancellation to the student's account. When all or part of the disbursement amount is returned 121 days or more after the date of disbursement, the loan amount borrowed is not reduced; rather, the funds are considered a payment toward the loan.

The payment is applied to the borrower's account just like any regular payment. This does not affect the school's cash-on-hand balance.

When this occurs, all schools must send a check to the LOC with the appropriate instructions to apply the amount to the borrower's account as a payment (the school may not send a payment via ACH or Fedwire). If this payment is the result of a refund calculation, it must be returned within thirty days. Proof of compliance with this requirement is documented by the date of the check. The date the LOC will have on its system will be the date it received the money being returned. The LOC will then apply the payment amount to outstanding interest before crediting the amount to the principle balance. The borrower is responsible for the loan fees and any accrued interest on the amount of the loan.

CASH MANAGEMENT

Direct Loan funds are subject to the same cash management requirements as other Title IV programs (except FFEL). Reviewers should refer to Subpart K of the General Provisions for appropriate cash management regulations (see sections 668.161 through 668.166).

Unlike other Title IV programs, Direct Loan drawdowns and expenditures are reported electronically to the LOC, and are not reported on the EDPMS Form 272s.

FEDERAL DIRECT LOAN BANK ACCOUNT

All schools must deposit Direct Loan funds into a bank account that meets the following requirements:

- The name of the bank account must include the phrase "Federal Funds" to clearly identify that Title IV Federal funds are maintained in that account; **OR**
- The bank must be notified of the accounts that contains Federal funds and the school must retain a record of that notice in its recordkeeping system, **AND**, unless the school is a public institution, it must file a UCC-1 statement disclosing that the account contains Federal funds.

Direct Loan funds may be kept in the same account with other Title IV funds. The December 1, 1994 (Section 668.164) General Provisions Cash Management regulations contain additional information about the requirements of a bank account.

If an Option 2 school has requested funds to be deposited into its bank account, the school must be able to provide the Reviewer with a detail listing or a general ledger that indicates who received the funds, when they were received and the amount.

For an Option 1 or Standard Origination school, the based on the anticipated disbursement dates provided by the school. These schools receive an electronic Actual Disbursement Roster indicating the individual borrowers,

NOTE: The funds received by an Option 1 or Standard Origination school are student specific. Any funds not used by the third business day must be returned to LOC as excess cash unless the school meets the excess cash tolerances AND disburse to the students on the original disbursement roster for whom the funds were intended.

OF PAYMENT

Like other institutions participating in the Title IV programs, Direct Loan schools may be monitor Federal funds is perceived. Certain departmental entities can recommend transfer of an institution to reimbursement (34

The Federal Register of April 26, 1994, provided criteria for admission to the Direct Loan Program, one of which was that schools not be on reimbursement at the time they apply selection.

The reimbursement process for the Federal Direct Loan Program is similar, though not

In both cases, institutions are obliged to pay money to students (or credit students' accounts) prior to being reimbursed by the Department. In both cases, institutions may

There are, however, some noticeable differences between Direct Loan reimbursement and Pell Grant reimbursement. Unlike the Pell Grant Program, the Direct Loan Program

documentation that a school must transmit to the Reimbursement Analyst in support of its reimbursement claim.

Direct Loan EIN and PIN numbers that must be included on reimbursement requests
EIN is the first digit which
begins with a "3" for Direct Loan schools. It is also worth noting that, under Direct Loan

For a more detailed explanation of the Direct Loan reimbursement process, please refer to the Reimbursement Manual or consult your regional Reimbursement Analyst. A “draft” Addendum to the Reimbursement Manual covering the Direct Loan Program was issued on September 1, 1995.

Finally, Reviewers should note that once a Direct Loan institution is transferred to the reimbursement system of payment, the Direct Loan Task Force will convert that school’s origination option to Standard Origination. As a consequence, Reviewers should find no Option 1 or Option 2 schools on reimbursement.

Furthermore, although Direct Loan schools on reimbursement are Standard Origination institutions, such schools are also referred to as “Level 5”.

NOTE: Level 5 is an internal Departmental classification used to distinguish schools on reimbursement from other Standard Origination schools, and indicates that funds are requested through IRB rather than the LOC. This designation should NOT be used outside the Department.

APPENDICES

APPENDIX A

***DIRECT LOAN PROGRAM PARTICIPATION AGREEMENTS
(INITIAL and REVISED)***



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF POSTSECONDARY EDUCATION
DIRECT LOAN TASK FORCE
WASHINGTON, DC 20202-5324

OPE ID Number:

ARTICLE XI. FEDERAL DIRECT STUDENT LOAN PROGRAM

As Chief Executive Officer of the Institution identified above, I agree that the Institution and its representatives shall comply with the statute, guidelines, and forthcoming regulations governing the Title IV, Part D, Federal Direct Student Loan Program as required by Section 454 of Pub.L. 103-66.

This Agreement covers the institution's level of origination checked below to Participate in the Federal Direct Student Loan Program.

Level I Level 2 Level 3 (Alternative Origination)

On behalf of the Institution, I certify that the Institution will:

1. Provide for the establishment and maintenance of a Direct Student Loan program at the institution that will:

- Identify eligible students who seek student financial assistance in accordance with Section 484 of the HEA.
- Estimate the need of students as required under Title IV, Part F of the HEA.
- Provide a certification statement of eligibility for students to receive loans that will not exceed the annual or aggregate limits. except the Institution may exercise its authority, under exceptional circumstances identified by the Secretary, to refuse to certify a statement that permits a student to receive a loan, or certify a loan amount that is less than the student's determination of need, if the reason for such action is documented and provided in written form to a student.
- Establish a schedule for disbursement of loan proceeds to meet the requirements of Section 428G of the HEA.
- Provide timely and accurate information to the Secretary concerning 1) the status of borrowers while students are in attendance, any new information pertaining to the status of student borrowers or which the Institution becomes aware after the student leaves school. and 2) the utilization of Federal funds under Part D at such times and in such manner as prescribed by the Secretary.

2. Comply with the requirements established by the Secretary relating to student loan information ,with respect to the Direct Loan Program.
3. Provide that students at the Institution and their parents (with respect to such students) will be eligible to participate in the programs under Title IV, Part B of the HEA, Federal Family Education. Loan programs, at the discretion of the Secretary for the period during which such Institution participates in the Federal Direct Student Loan Program, except that a student or parent may not receive loans under both Part B and Part D for the same period of enrollment.
4. Provide for the implementation of a quality assurance system, as established by the Secretary and developed in consultation with institutions of higher education, to ensure that the Institution is complying with program requirements and meeting program objectives.
5. Provide that the Institution will not charge any fees of any kind, regardless of how they are described, to student or parent borrowers for loan application, or origination activities, (if applicable) or the provision and processing of any information necessary for a student or parent to receive a loan under Part D.
6. Provide that the Institution will originate loans to eligible students and parents in accordance with Part D requirements and use funds advanced to it solely for that purpose. (Level I only)
7. Provide that the note or evidence of obligation of the loan shall be the property of the Secretary. (Level I and 2 only)
8. Implement such other provisions as the Secretary determines are necessary to protect the interest of the United States and to promote the purposes of Part D.
9. Accept responsibility and financial liability stemming from its failure to perform its functions under this Agreement.

This approval is granted for a limited period, expiring on June 30, 1997, to permit the Institution identified above to participate in the Title IV, Part D, Federal Direct Student Loan Program. Notwithstanding any paragraph in either the Program Participation Agreement or in this Addendum the approval to participate ill the Federal Direct Student Loan Program also ends upon the expiration of the Institution's Program Participation Agreement.

Signature of Institution's
Chief Executive Officer _____ Date:

Print Name and Title: _____

For the Secretary: _____ Date:



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF POSTSECONDARY EDUCATION
DIRECT LOAN TASK FORCE
WASHINGTON, DC 20202-5324

Dear Colleague:

<<OPE_ID>>

Enclosed is your institution's William D. Ford Federal Direct Student Loan Program Participation Agreement for the 1996-97 academic year. This Agreement establishes the terms under which your institution will participate in Direct Loans. This Agreement is an Addendum to your institution's Title IV Program Participation Agreement.

Based on **the** conditions listed in regulations published on December 1, 1994, your institution is designated to participate in the Direct Loan Program under **Option**. Your Institution may choose an option with less responsibility if desired. **Note that your institution may not choose an option with greater responsibility.** For example, an institution designated for Option I may choose Standard Origination, but not Option 2. An institution designated for Option 2 may choose Option I or Standard Origination. An institution designated for Standard Origination may not choose another option. If you would like to change your participation option, please fax a request to (202) 401 -3424, Attn: Ellen Taylor.

Otherwise, please review and sign both copies of the Agreement and return to:

Direct Loan Task Force
U.S. Department of Education
600 Independence Avenue, SW
ROB-3, Room 4025
Washington, DC 20202

Attn: Ellen Taylor

WHEN RETURNING THE AGREEMENTS, PLEASE REMEMBER THAT WE MUST HAVE THE ORIGINAL SIGNATURE OF THE CHIEF EXECUTIVE OFFICER. Therefore, please do not fax us your signed Agreement. Both copies of the Agreement should be returned as soon as possible but no later than 30 days from the date of this **letter**. When returning the Agreement, it is not necessary to return this Dear Colleague letter with it. When we receive the Agreement, a representative of the Secretary of Education will sign it and we will return a copy to you for your institution's records.

ORIGINATION OPTIONS

The December 1, 1994 regulations outline three origination options for 1996-97, and you should refer to those regulations for complete information.

Note that the names of the origination categories will change. In 1995-96, institutions participated in Direct Loans as Level 1, Level 2, or Alternative Origination institutions. For 1996-97, Level I is now Option 2, Level 2 is now Option 1, and Alternative Origination is Standard Origination. **The functions of each category, however, have not changed.** See the enclosed chart for a comparison of functions and names.

Briefly, the three options of participation are:

Standard Origination: Institutions create loan records, but the Loan Origination Center handles the promissory notes and draws down funds to transmit to institutions to make payments to specific borrowers. Institutions are responsible for reporting disbursements and reconciling cash and loan records monthly. Standard Origination institutions receive no administrative payment.

Option 1: Institutions create loan records and handle promissory notes, but the Loan Origination Center is responsible for drawing down funds to transmit to institutions to make payments to specific borrowers. Institutions are responsible for reporting disbursements and reconciling cash and loan records monthly. Option I institutions will receive a \$7 administrative payment for each Direct Loan borrower, based on processing of a reconciled booked loan.

Option 2: Institutions create loan origination records, handle promissory notes, and draw down funds to make payments to borrowers. (Institutions are responsible for reporting disbursements and reconciling cash and loan records monthly. Option 2 institutions receive the maximum \$10 administrative payment, based on processing of a reconciled booked loan. (Option I and 2 institutions may choose to have the Loan Origination Center print the promissory notes. In this case the printed promissory notes are returned to the school to distribute to students, obtain valid signatures and return to the Loan Origination Center).

The payment of administrative fees is contingent on continued legislative authority to make such payments. If you have any questions, please contact the Task Force by mail at the address listed on page one, by fax on 202-401-3424, by telephone on 202-708-9951, or through INTERNET on <#directloan@ed.gov>.

Sincerely,

Diane Voigt, Chair
Direct Loan Task Force



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF POSTSECONDARY EDUCATION
DIRECT LOAN TASK FORCE
WASHINGTON, DC 20202-5324

REVISED COPY

<<SCHOOLNAME>>

<<SUBNAME>>

Office of the President

<<C8>>

<<C8A>>

<<C9>>, <<C10>> <<C11>>-<<C12>>

FFEL ID: <<FFEL_ID>>

OPE ID: <<OPE_ID>>

ARTICLE XI. WILLIAM D. FORD FEDERAL DIRECT STUDENT LOAN
PROGRAM

As Chief Executive Officer of the Institution identified above, I agree that the Institution and its representatives shall comply with the statute, guidelines, and forthcoming regulations governing the Title IV. Part D. William D. Ford Federal Direct Student Loan Program (Direct Loan Program) as required by Section 454 of Pub.L. 103-66.

On behalf of the Institution. I certify that the Institution will:

1. Provide for **the** establishment and maintenance of a Direct Loan program at the institution that will:

- Identify eligible students who seek student financial assistance in accordance with Section 484 of the HEA.
- Estimate the need of students as required under Title IV, Part F of the HEA.
- Provide a certification statement of eligibility for students to receive loans that will not exceed the annual or aggregate limits, except the Institution may exercise, its authority, under exceptional circumstances identified by the Secretary, to refuse to certify a statement that permits a student to receive a loan, or certify a loan amount that is less than the student's determination of need, if the reason for such action is documented and provided in written form to a student.
- Establish a schedule for disbursement of loan proceeds to meet the requirements of Section 428G of the HEA.
- Provide timely and accurate information to the Secretary concerning 1) the status of borrowers while students are in attendance, any new information pertaining to the status of student borrowers of which the institution becomes aware after the student leaves the institution, and 2) the utilization of Federal funds under Part D at such times and in such manner as prescribed by the Secretary.

2. Comply, with requirements established by the Secretary relating to student loan information with respect to the Direct Loan Program.

3. Provide that students at the Institution and their parents (with respect to such students) will be eligible to participate in the programs under Title IV. Part B of the HEA, Federal Family Education Loan programs. at the discretion of the Secretary for the period during which such Institution participates in the William D. Ford Federal Direct Student Loan Program. except that a student or parent may not receive loans under both Part B and Part D for the same period of enrollment.
4. Provide for the implementation of a quality assurance system, as established by the Secretary and developed in consultation with institutions of higher education, to ensure that the Institution is complying with program requirements and meeting program objectives.
5. Provide that the Institution will not charge any fees of any kind, regardless of how they are described. to student or parent borrowers for loan application, or origination activities **(if applicable)**. or the provision and processing of any information necessary for a student or parent to receive a loan under Part D.
6. Provide that the Institution will originate loans to eligible students and parents in accordance with Part D requirements and use funds advanced to it solely for that purpose. (Option 2 only)
7. Provide that the note or evidence of obligation of the loan shall be the property of the Secretary. (Options 2 and I only)
8. Implement such other provisions as the Secretary determines are necessary to protect the interest of the United States and to promote the purposes of Part D.
9. Accept responsibility and financial liability stemming from its failure to perform its functions under this Agreement.

This approval is granted for a limited period, expiring on June 30, 2001 to permit the Institution identified above to participate in the Title IV, Part D, William D. Ford Federal Direct Student Loan Program. Notwithstanding any paragraph in either the Program Participation Agreement or in this Addendum, the approval to participate in the Federal Direct Student Loan Program also ends upon the expiration of the Institution's Program Participation Agreement.

<<OPE_ID>>

Signature of Institution's
Chief Executive Officer _____ Date:

Print Name and Title: _____

For the Secretary: _____ Date:

APPENDIX B

EXAMPLE OF THE DIRECT LOAN PROCESS

This appendix provides an example of the Direct Loan process from awarding to receipt of funds to the student's account. It includes the following items: (1995-96 SAR (Part 1), Award Letters, (Initial and Adjusted), Promissory Notes (Subsidized and Unsubsidized), Loan Origination Records (Subsidized and Unsubsidized), and the Student's Account Record.

(Note – The above items, pages B-2 through B15 are not provided in this electronic version. They are standard forms and examples. To obtain a hardcopy of these pages, contact the Performance Improvement and Procedures Division at 202-708-8197.)

The explanations below are in reference to the “starred” (*) items on the documents located in Appendix B (an example of the Direct Loan process).

1995-96 SAR. This document provides the EFC, and indicates that the student is a dependent, first-year, first-time borrower.

“Initial” award letter. This provides the types and amounts of financial aid awarded to the student. Some schools may also provide the COA and EFC information on the award letter. However, Reviewers should request a copy of the COA to get the individual components and amounts.

“Adjusted” award letter. This letter is generated when additional aid is awarded to the student. It provides the initial (or any adjustments to the initial award), as well as the additional types and amounts of financial aid awarded to the student.

Federal Direct Stafford Subsidized/Unsubsidized Promissory Note and Disclosure.

NOTE: Although schools are not required to keep copies of promissory notes, some schools (Option 1 and Option 2) do retain copies. If a student is awarded a Federal Direct Stafford Subsidized and Unsubsidized at the same time, the school has the option of printing one (1) promissory note covering both loans, or printing two (2) promissory notes-- one for the Federal Direct Stafford Subsidized and one for the Federal Direct Stafford Unsubsidized. However, the school will have two (2) loan origination records for the student. In this example, the student was awarded the Federal Direct Stafford Unsubsidized loan at a later date. The financial aid counselor used professional judgment due to the parents’ low income and/or public assistance received (see Direct Loan regulations, 685.203 (c), December 1, 1994).

Loan Origination Record (Subsidized). This record provides the Reviewer with similar information that appears on a FFEL application such as loan period, grade level, enrollment status, dependency status, loan amounts (requested and approved), etc. In addition, since schools are not required to retain promissory notes, Reviewers should check the Promissory Note Status line to determine if the note has been accepted by the LOC. Refer to the Promissory Note section of this addendum for additional information. This record contains three parts: 1) Borrower’s Data (page 1); 2) Anticipated Disbursements (page 2); and 3) Actual Disbursements (page 3). The Actual Disbursement screen shows if the record has been reconciled on the Reconciliation Status line.

Student’s Account Record. This is a transaction listing of student charges, as well as credits. Reviewers should obtain copies of student’s account record, billing statement, ledger cards, etc. to determine when the student’s account was credited (30-day delayed delivery).

APPENDIX C

DIRECT SUBSIDIZED/ UNSUBSIDIZED LOAN PROMISSORY NOTE/DISCLOSURE and ADDENDUMS

(Note – The items in this appendix, pages C1 through C4 are not provided in this electronic version. It is a standard promissory note with disclosures and addenda. To obtain a hardcopy of these pages, contact the Performance Improvement and Procedures Division at 202-708-8197.)

APPENDIX D

DIRECT PLUS LOAN APPLICATION/PROMISSORY NOTE and ADDENDUMS

(Note – The items in this appendix, pages D1 through D4 are not provided in this electronic version. It is a standard promissory note with disclosures and addenda. To obtain a hardcopy of these pages, contact the Performance Improvement and Procedures Division at 202-708-8197.)

APPENDIX E

DIRECT LOAN PROGRAM REGULATIONS

DIRECT LOAN PROGRAM REGULATIONS

The following final regulations and notices on the William D. Ford Federal Direct Student Loan Program have been published in the Federal Registers. Reviewers can obtain copies from the Regional Office library, the Regional Training Officer, or the Regional Direct Loan staff.

July 2, 1993 -- Creates Part 685 of Title 34 of the Code of Federal Regulations containing regulations for the Direct Loan Program (34 CFR 685).

September 10, 1993 -- Describes the school selection criteria and application procedure for the first year (1994-95 academic year).

December 28, 1993 -- Announces the schools selected to participate in the first year (1994-95 academic year).

January 4, 1994 -- Specifies administrative requirements and program procedures for year one (1994-95 academic year).

February 17, 1994 -- Outlines the school selection criteria for year two (1995-96 award year), and invites applications for participation.

April 26, 1994 -- Outlines criteria for originating Direct Loans for year two (1995-96 award year) Direct Loan schools.

July 1, 1994 -- Outlines repayment and loan consolidation options for borrowers in the first year (1994-95) of the Direct Loan Program.

August 18, 1994 -- Outlines proposed regulatory policies and procedures to streamline the loan application and disbursement processes in the Direct Loan Program for the 1995-96 and subsequent academic years.

September 2, 1994 -- Extends the application closing date to November 1, 1994 for schools interested in participating in the Direct Loan Program.

September 29, 1994 -- Correction to the Direct Loan Internet address.

December 1, 1994 -- Amends the program regulations. Streamlines the loan application and disbursement process and assists schools in the administration of loans.

December 1, 1994 -- Amends general provisions regulation to incorporate cash management principles. Revises Subpart B, adds a new Subpart K, and makes conforming revisions in other Title IV HEA program regulations.

December 22, 1994 -- Issues final standards, criteria and procedures governing the alternative repayment and income contingent repayment plans for the academic year beginning July 1, 1994.

December 29, 1994 -- Announces the schools selected for participation in the second year (1995-96 academic year).

February 17, 1995 -- Invites applications from schools to participate in year three (1996-97 academic year).

February 28, 1995 -- Announces the Secretary's intent to establish the Borrower Defenses Regulations Negotiated Rulemaking Advisory Committee.

March 27, 1995 -- Announces the date and agenda for the first meeting of the Borrower Defenses Regulations Negotiated Rulemaking Advisory Committee.

June 27, 1995 -- Announces the interest rates for variable rate loans made under the Direct Loan Program for the period July 1, 1995 - June 30, 1996.

June 28, 1995 -- Amends the Direct Loan Program Regulations by adding the "OMB Control Number" to the information collection sections. Announces the July 1, 1995, effective date for these sections.

June 30, 1995 -- Amends the general provisions regulations to correct errors in the cash management regulations and other Title IV HEA program regulations.

July 21, 1995 -- Reports the results of the April 25, 1995, Borrower Defenses Regulations Negotiated Rulemaking Advisory Committee. Cancels future scheduled meetings of the Committee and provides information about administrative procedures the Department will implement regarding borrower defenses.

December 1, 1995 -- Amends the general provisions regulations by modifying the FFEL Program default reduction initiative and implementing default prevention measures in the Direct Loan Program (Effective July 1, 1996).

December 1, 1995 -- Amends the Direct Loan Program regulations to provide schools with more flexibility in performing origination functions. Clarifies the date of loan origination. Sets timelines for the submission of promissory notes, disbursement records, and origination records (Effective July 1, 1996).

December 1, 1995 -- Amends the general provisions regulations by eliminating unnecessary regulations and improving existing regulations in response to the President's Regulatory Reform Initiative (Effective July 1, 1996).

December 1, 1995 -- Amends income contingent repayment plan provisions under the Direct Loan Program (Effective July 1, 1996).

APPENDIX F

SUMMARY of DIRECT LOAN BULLETINS

(Note – Pages F2 through F4 are not provided in this electronic version. They are lists of Direct Loan Bulletins through November 1995. Lists of more recent bulletins, 1997 to present, are available at the Direct Loan website -- <http://www.ed.gov/DirectLoan>. However, to obtain hardcopies of these pages, contact the Performance Improvement and Procedures Division at 202-708-8197.)

1996 Direct Loan Bulletins

DLB1	The Direct Loan School Guide	1/1996
DLB2	Questions and Answers concerning procedures and policies under the Direct Loan Program	2/1996
DLB3	Direct Loan Publication Update	2/1996
DLB4	Instructions for ordering 1996-97 promissory notes	2/1996
DLB5*	Clarifies the definition of a disbursement in the Direct Loan Program and clarifies the date a disbursement is made	2/1996

* DLB5 replaces DLB16 that is on the 1995 listing of Direct Loan Bulletins

APPENDIX G

DIRECT LOAN PUBLICATIONS

DIRECT LOAN PUBLICATIONS

All About Direct Loans gives borrowers detailed information about the Direct Loan Program, including the types of Direct Loans, loan disbursement procedures, repayment options, options for postponing repayment, and loan consolidation.

Direct Loans: A Better Way to Borrow gives a brief overview of the Direct Loan Program and includes information on application procedures, loan limits, and a brief description of the repayment options. It also describes the advantages of Direct Loans for student and parent borrowers, schools, and taxpayers.

Direct PLUS Loan Basics includes the definition of a dependent student, eligibility criteria, repayment options, options for postponing repayment, and loan consolidation.

1995-96 Repayment Book explains in detail the four repayment plans available under Direct Loans and gives examples of how each plan works. The booklet 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 booklet will help borrowers choose the repayment plan best for them.

Entrance Counseling Guide for Borrowers (Entrance Borrowers' Guide) covers topics such as loan amounts, interest rates, capitalization of interest, and the repayment plans available under Direct Loans. Also discussed are deferment, forbearance, and the consequences of default. The **Entrance Borrowers' Guide** includes tips on how students can budget their money so they will have enough to stay in school and to repay their loans later.

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 **Entrance Borrowers' Guide**.

Exit Counseling Guide for Borrowers (Exit Borrowers' Guide) explains the role of the Loan Origination Center, which is responsible for borrower services, including loan collection.

The **Exit Borrowers' Guide** also explains in greater depth the various repayment plans and covers Direct Consolidation Loans, deferment provisions, forbearance, and discharge (cancellation). It spells out the consequences of default and offers suggestions on how borrowers can budget once they leave school so they can avoid default.

Exit Counseling Guide for Counselors explains what counselors must cover to meet the Department of Education's regulatory requirements, offers tips in organizing counseling sessions, and presents an outline of discussion topics that follows the **Exit Borrowers' Guide**.

Entrance/Exit Videos and Counseling Kits are designed to supplement written entrance and exit counseling materials. The videos are 14 minutes each and illustrate situations students are likely to face.

The Reconciliation Guide for Direct Loans/ Direct Loan Training Guide - Managing Your Data for Reconciliation explains the process of matching a school's cash disbursement records with those of the Loan Origination Center.

The Direct Loan Quality Assurance Planning Guide

APPENDIX H

ACCOUNTABILITY AND RECONCILIATION TEAM (ART) REPORTS

(Note – The items in this appendix, pages H-1 through H6 are not provided in this electronic version. They are examples of reports that were once generated by the Accountability and Reconciliation Team. To obtain a hardcopy of these pages, with the names of schools in the reports deleted, contact the Performance Improvement and Procedures Division at 202-708-8197.)

APPENDIX I

DIRECT LOAN INTERVIEW QUESTIONS

DIRECT LOAN INTERVIEW QUESTIONS

Listed below are some questions that a Reviewer may choose to ask school officials to gain an understanding of the school's Direct Loan process.

Explain the Direct Loan process and identify the individual(s)/office(s) responsible for various components of the process.

- Who creates the loan origination records?
- What office is responsible for printing the promissory notes?
- Who transmits data to the LOC?
- Who is responsible for Direct Loan cash management activities?
- Who is responsible for ensuring that the school's loan information matches all LOC records?
- Who requests funds (Option 2 schools only)?
- What are the roles of Financial Aid, Business/Comptroller's Office, Registrar, etc.?

How does your institution determine who will receive a Direct Loan?

What type of system environment is your school using to manage Direct Loans-- PC using EDEExpress, PC using custom software, combination of Mainframe and PC, or Custom/Mainframe)?

How does the institution enter data elements into the Direct Loan system? Are they manually entered from other documents, or are they uploaded from another system?

Who is authorized to make changes to data in the system?

Does the institution have a Quality Assurance component? Explain what your institution does in reference to the Direct Loan Quality Assurance requirement. Is your school in the Quality Assurance Program (QAP)?

Note: QAP is different from the QA component of the Direct Loan Program.

How frequently does the institution perform reconciliation and what is the institution's "as of" date? How are Direct Loan reconciliation discrepancies or problems resolved at your institution?

How does the school request Direct Loan funds? Does the Financial Aid Office provide a list of eligible students for whom funds are being requested to the Business/Comptroller's office? How does the person who completes the drawdown determine the amount of cash to request?

How does the school ensure that disbursements are reported to the LOC within the 30-day timeframe (required as of July 1, 1996)?

Describe the school's process for making refunds to the Direct Loan program.

Describe how entrance/exit counseling is done at your school?

Does the school do prorations for Direct Loan recipients? If so, under what conditions?

How many Federal bank accounts does the school maintain? Into which account is the Direct Loan POS deposited?

Are student credit balances ever maintained on a student's account? If so, has the student signed an authorization form? When does the school provide a credit balance to a student?

APPENDIX J

PROGRAM REVIEW FOCUS ITEMS



Program Review Focus Items

FISCAL:

- 1. Fiscal Records/Audit Trail Inadequate
- 2. Excess Cash Maintained
- 3. EDPMS 272 or Direct Loan Expenditure Report Inaccurate
- 4. Advances Used for Non-Program Purposes
- 5. Matches Not Made in Campus-Based Programs
- 6. Late/Unpaid Refunds
- 7. Refund Calculation Incorrect
- 8. Credit Balances Not Paid to Students
- 9. FFEL Disbursements Not Attributed to Payment Periods

STUDENT ELIGIBILITY:

- 10. Ability to Benefit Violations
- 11. Satisfactory Academic Progress Standards Not Monitored/Developed
- 12. Ineligible Non-Citizen
- 13. Attendance Records Missing/Inaccurate
- 14. Financial Aid Transcript Missing/Incomplete

AWARDING/DISBURSEMENT:

- 15. Incomplete Verification
- 16. Independent Status (Not Documented; Incorrect; Unreasonable Professional Judgment)
- 17. Perkins Loan Promissory Notes Missing/Unsigned
- 18. Timecards for FWS Students Missing/Invalid
- 19. Improper Pell Calculations/Disbursements
- 20. Student Aid Report Invalid
- 21. Disbursements Made Prior to Midpoint
- 22. Enrollment Not Verified Before Disbursement
- 23. Need Analysis Improper/Undocumented
- 24. Direct Loan/FFEL Loan not Prorated for Programs < One Year
- 25. Direct Loan/FFEL Loan Amounts Incorrect for Grade Level

OTHER:

- 26. Ineligible Program
- 27. Ineligible Location
- 28. Unresolved Items From Past Reviews/Audits
- 29. FISAP Income Grid not Documented
- 30. Perkins Loan Due Diligence Deficiencies
- 31. Improper Commissioned Sales Rep Practices
- 32. Clock/Credit Hour Conversion Improper
- 33. Direct Loan/FFEL Student Confirmation Report Not Filed/Inaccurate
- 34. High Default School

APPENDIX K

MEMORANDUM/COMPLIANCE CAPABILITY of DIRECT LOAN PROGRAM SCHOOLS

(Note – The above item, pages K-1 through K5 is not provided in this electronic version. To obtain a hardcopy of this memorandum, contact the Performance Improvement and Procedures Division at 202-708-8197.)