

Direct Loans 101 – Direct Loan Overview

Contents

| | |
|---|---|
| Contents..... | 1 |
| Introduction..... | 1 |
| Direct Loan Counseling-Entrance, Financial Awareness, PLUS, Exit | 2 |
| Entrance Counseling..... | 2 |
| Financial Awareness Counseling..... | 2 |
| PLUS Counseling | 2 |
| Exit Counseling | 3 |
| FAFSA and Master Promissory Note - Direct Subsidized Loans and Direct Unsubsidized Loans..... | 3 |
| Application and Master Promissory Note – Direct PLUS Loans..... | 3 |
| Confirmation Process (for subsequent loans)..... | 4 |
| Origination | 5 |
| Disclosure Statements..... | 5 |
| Disbursement..... | 6 |
| Reconciliation..... | 7 |
| Common Record Response Documents | 8 |
| Unsolicited System-Generated Responses..... | 8 |
| Servicing..... | 9 |

Introduction

The William D. Ford Federal Direct Loan (Direct Loan) Program provides loans to eligible borrowers to cover postsecondary education costs.

The Direct Loan Program offers four loan types:

- Direct Subsidized Loans
- Direct Unsubsidized Loans
- Direct PLUS Loans (for Parents and Graduate/Professional Students)
- Direct Consolidation Loans

This document provides a high-level overview of the Direct Loan process and tools available to assist with each part of the process.

Direct Loan Counseling-Entrance, Financial Awareness, PLUS, Exit

Entrance Counseling

Direct Subsidized Loan and Direct Unsubsidized Loan entrance counseling is only required for **first-time** borrowers. Graduate and professional student borrowers who are receiving their first Direct PLUS Loan must complete entrance counseling that also includes Direct PLUS Loan information.

Note: A borrower who is receiving his or her first Direct Loan is not required to complete entrance counseling if he or she has previously received the same type of loan through the Federal Family Education Loan (FFEL) Program.

A school has a number of options for meeting the regulatory requirement to ensure that entrance counseling is provided, including:

- Online via the StudentLoans.gov Web site
- Department-prepared printed guides (available on the FSAPubs Web site)
- In-person sessions, audio-visual presentations, or other online counseling products. As a reminder, if a school uses one of these other options for Direct Loan Entrance Counseling, it is responsible for ensuring that the counseling meets all federal Direct Loan entrance counseling requirements.

Financial Awareness Counseling

Financial Awareness Counseling provides borrowers the basics of financial management, shows borrowers their current federal student loan debt (and their current student loan debt if they enter information about their private student loans), and provides borrowers an estimate of what their student loan debt is likely to be at the time they leave school.

IMPORTANT: While Financial Awareness Counseling contains some of the same information in Entrance and Exit Counseling, it does not meet the regulatory requirements for Entrance or Exit Counseling.

Financial Awareness Counseling is only available online via the [StudentLoans.gov Web site](http://StudentLoans.gov).

PLUS Counseling

PLUS Counseling is required for parent and graduate/professional student Direct PLUS Loan applicants who are determined to have an adverse credit history, but qualify for a Direct PLUS Loan by obtaining an endorser or documenting extenuating circumstances.

IMPORTANT: PLUS counseling for applicants who are determined to have an adverse credit history is a separate module and does not fulfill the entrance counseling requirement for first-

time graduate/professional student Direct PLUS Loan applicants. Depending on a graduate/professional student's circumstances, he/she may have to complete both modules.

PLUS Counseling is only available online via the StudentLoans.gov Web site. While the completion of the new PLUS Counseling is required only for the Direct PLUS Loan applicants identified above, the new PLUS Counseling will also be made available for all Direct PLUS Loan applicants to complete on a voluntary basis.

Exit Counseling

A school also has a number of options for meeting the regulatory requirement to ensure exit counseling is provided, including:

- Online via the [StudentLoans.gov Web site](http://StudentLoans.gov)
- Department-prepared printed guides (available on the [FSAPubs Web site](http://FSAPubs))
- In-person sessions, audio-visual presentations, or other online counseling products. As with entrance counseling, if a school uses one of the other options for exit counseling, it is responsible for ensuring that the counseling meets all federal exit counseling requirements.

FAFSA and Master Promissory Note - Direct Subsidized Loans and Direct Unsubsidized Loans

For Direct Subsidized Loans and Direct Unsubsidized Loans, a borrower must complete:

- Free Application for Federal Student Aid (FAFSA)
- Federal Direct Subsidized Stafford/Ford Loan, Federal Direct Unsubsidized Stafford/Ford Loan Master Promissory Note (MPN)

The MPN is the legal document through which a borrower promises to repay his or her Direct Loan and any accrued interest and fees to the Department of Education (the Department). It also explains the terms and conditions of the loan.

A school may offer its borrowers the option of completing a Direct Subsidized Loan and Direct Unsubsidized Loan MPN electronically via the [StudentLoans.gov Web site](http://StudentLoans.gov) or on paper. **Note:** Borrowers must be permitted to sign a paper MPN if they choose not to complete the MPN electronically.

Application and Master Promissory Note - Direct PLUS Loans

For Direct PLUS Loans, a borrower must complete:

- Free Application for Federal Student Aid (FAFSA) (Graduate/professional students only)

- Federal Direct PLUS Loan Application and MPN
- Additional information needed to originate a Direct PLUS Loan (see below)

A school may establish a school-specific process for obtaining Direct PLUS Loan information or it may direct its PLUS borrowers to complete the **Federal Direct PLUS Request for Supplemental Information** (Direct PLUS Loan Request) via the [StudentLoans.gov Web site](http://StudentLoans.gov).

The advantages to the Direct PLUS Loan Request are:

- A credit check is performed during the Direct PLUS Loan Request process.
- After completing the Direct PLUS Loan Request, borrowers are given the opportunity to complete the Direct PLUS Loan MPN.
- An applicant who is determined to have an adverse credit history after completing a Direct PLUS Loan Request may have an endorser complete a Direct PLUS Loan Endorser Addendum electronically, initiate the process of appealing the determination of adverse credit, complete PLUS Counseling or indicate that he or she does not wish to continue pursuing a Direct PLUS Loan.

The MPN is the legal document through which a borrower promises to repay his or her Direct Loan and any accrued interest and fees to the Department. It also explains the terms and conditions of the loan.

A school may offer its borrowers the option of completing a Direct PLUS Loan MPN electronically via the [StudentLoans.gov Web site](http://StudentLoans.gov) or on paper. **Note:** Borrowers must be permitted to sign a paper MPN if they choose not to complete the MPN electronically.

Confirmation Process (for subsequent loans)

A school must develop and document a confirmation process for borrowers receiving loans for a subsequent academic year under a previously signed MPN. There are two types of confirmation:

- **Active Confirmation** – school does not disburse the loan until the borrower accepts the loan type and amount or requests changes to the loan package.
- **Passive Confirmation** – school disburses the loan when the borrower is notified of the loan package. The borrower only needs to take action if he or she is declining the loan or making changes to the type or amount offered.

For Direct Subsidized Loans and Direct Unsubsidized Loans, a school can use either an active or passive confirmation process. For Direct PLUS Loans, a school must use an active confirmation process.

Note: The Direct PLUS Loan Request (discussed above) can be used as a school's active confirmation process.

Origination

The origination process informs the Department of who will receive Direct Loan funds, for what period, in what amounts, and on what anticipated dates. The school communicates origination information to the Department via the COD System. The date of loan origination is the date the school creates the electronic loan origination record (see 34 CFR 685.301(a)(6)).

The COD System will process the origination information and send a Common Record Response to the school.

Origination information includes:

- Student/Borrower information
- Loan information
- Disbursement information (anticipated)

Note: For Direct PLUS Loans, the origination process will initiate a credit check, if there is not one on file within the past 180 days. Therefore, a school must have the applicant's authorization to complete a credit check prior to submitting a Direct PLUS Loan origination to the COD System, if the applicant has not previously completed an MPN or Direct PLUS Loan Request. A credit check authorization is part of both the MPN and Direct PLUS Loan Request processes.

Disclosure Statements

A disclosure statement must be sent before or at the same time as the first disbursement. The disclosure statement informs the borrower of the date(s) the loan funds are expected to be disbursed and the anticipated disbursement amounts, and discloses certain loan terms and conditions, such as how the borrower may cancel all or part of the loan.

If a school opts to have the COD System print its disclosure statements, the COD System uses the data provided in the origination record to send the disclosure statements to the borrower.

- For loans greater than \$0 and accepted seven days or less before the earliest anticipated disbursement date or after the earliest anticipated disbursement date, the COD System send the disclosure statement immediately.
- For loans greater than \$0 and accepted more than seven days before the earliest anticipated disbursement date, the COD System sends disclosures seven days before the earliest anticipated disbursement date.

A school has other processing options for processing and printing disclosure statements. It can select these additional options via the [COD Web site's School Options page](#).

Notes:

1. To prevent a disclosure statement from going to a borrower who has asked that a loan be cancelled, it is important to reduce the loan to \$0 more than seven days before the first anticipated disbursement date.
2. If the origination record has not been submitted to the COD System at the time of disbursement, a school must provide the disclosure statement to the borrower. For subsequent loans, a Plain Language Disclosure (PLD) must also accompany the disclosure statement. Sample disclosure statements and PLDs are available on the IFAP Web site. PLDs are also available for schools to order on the FSAPubs Web site.
3. The disclosure statement does not fulfill the school's regulatory requirement to notify the borrower once each disbursement is made.

A disclosure statement is not sent for disbursement adjustments.

Disbursement

A disbursement record reports the date the funds were disbursed to the borrower by posting funds to the student's account at the school or paying the borrower directly (via check or other means). A valid MPN must be associated with the loan before the COD System will accept disbursement records. There are two types of disbursement records:

| Disbursement Type | Characteristics |
|---------------------------|--|
| Anticipated Disbursements | <ul style="list-style-type: none"> • Disbursement Release Indicator (DRI) is set to "False" in the Common Record or on the COD Web site. • Are submitted as a part of the origination record and provide information about when and how much money will be disbursed. |
| Actual Disbursements | <ul style="list-style-type: none"> • Disbursement Release Indicator (DRI) is set to "True" in the Common Record or on the COD Web site. • Some schools may submit up to 7 days before the actual disbursement date. • Must be submitted within 15 days of disbursement. |

A school draws down Direct Loan funds via the [G5 Web site](#) to make disbursements.

Other Important Reminders:

1. Before disbursing funds to borrowers, the disbursing office (for example, the Business Office or Bursar's Office) should work with the Financial Aid Office to confirm which Direct Loan disbursements are to be made. It is important that these two offices work together to

ensure that disbursements and disbursement adjustments are reported timely and accurately, and to perform the required Direct Loan monthly reconciliation (see following section).

2. A school must notify a borrower of each disbursement in accordance with the requirements described in 34 CFR 668.165(a)(2). As noted earlier, the Department's disclosure statement does **not** fulfill this requirement.
3. It is critical that the disbursement date and disbursement amount are reported accurately. Interest accrues from the date of each actual disbursement, so if the date or amount is different than what was previously reported, a correction must be submitted through a disbursement adjustment.

If a borrower requests that all or a portion of the disbursement or loan be cancelled within the regulatory time frames, a disbursement adjustment must be submitted. (See a [November 9, 2010 Electronic Announcement](#) posted on the IFAP Web site.)

Reconciliation

Direct Loan reconciliation is the process by which a school reviews and compares the Direct Loan Ending Cash Balance recorded on the COD System to the school's internal records on a monthly basis. In addition, annual reconciliation, referred to as Program Year Closeout, must be completed by the established deadline for each year.

To assist a school with the reconciliation process, the Department generates a monthly, award year-specific Direct Loan School Account Statement (SAS) and distributes it through a school's Student Aid Internet Gateway (SAIG) mailbox. The Direct Loan SAS contains the Department's official Ending Cash Balance for the school, as well as a record of all detailed transactions (cash and actual disbursement data) processed in the COD System during the reported period. Your school can use the summary and detail-level information contained in the SAS to reconcile to its internal records.

The Direct Loan SAS is available in multiple formats. A school can select its SAS options via the [COD Web site's SAS Options page](#).

In addition, there are numerous tools available to assist schools in reconciliation and closeout efforts. These tools are as follows:

- Direct Loan SAS Disbursement Detail On-Demand
- Direct Loan Booking Warning Report
- Pending Disbursement Listing
- Actual Disbursement List
- [G5 Web site](#) and Reports

- [COD Web site](#) (particularly the School Summary Financial Information, Funding Information, Cash Activity, and Refunds of Cash screens)
- DL Tools software/SAS Compare Program (available for all schools to use in identifying discrepancies between their data and the data provided on the Direct Loan SAS)
- Customer Service Representative/Reconciliation Specialist Assistance

Common Record Response Documents

Once processed by the COD System, origination and disbursement data is either accepted or rejected. The Common Record Response informs a school of the status of its records. The COD System sends one response document for each Common Record document (batch) submitted. The response document is also commonly referred to as an acknowledgement.

For Common Records that are transmitted via the SAIG, the COD System sends the response to a school's SAIG mailbox.

For data submitted via the [COD Web site](#), a school has the option to receive a Web Response via its SAIG mailbox or not at all. A school should check with its software provider to determine if the software accepts Web Responses.

In addition, responses provide the school:

- MPN linking information. If the MPN is linked to (associated with) a loan, additional information such as the expiration date is also included in the response.
- Credit Requirements Met status. Direct PLUS Loans must meet one of the following conditions before the loan may be disbursed:
 - Borrower has Accepted credit decision status
 - Borrower has a Denied credit decision status, has documented to the satisfaction of the Department that there are extenuating circumstances related to the adverse credit information and has completed PLUS Counseling.
 - Borrower has a Denied credit decision status, has obtained an endorser who does not have an adverse credit history and has completed PLUS Counseling

Additional information about COD System responses and the COD System Reject and Warning Edits can be found in the [COD Technical Reference](#).

Unsolicited System-Generated Responses

A school will also receive Unsolicited System-Generated Responses:

- **MPN responses** – sent when a new MPN is completed electronically via the [StudentLoans.gov Web site](#) or on paper, and is accepted. The responses are sent to the school identified on the MPN. If MPN information changes (for example, the expiration date), the response is sent to any school associated with an MPN (the school identified on the MPN and the school that originated the award linked to the MPN).
- **Counseling responses** – generated when Entrance, Financial Awareness or Exit counseling is completed on the [StudentLoans.gov Web site](#).
- **Direct PLUS Loan Request responses** – generated when a Direct PLUS Loan Request is completed on the [StudentLoans.gov Web site](#).
- **Credit Status responses** – generated when there is a change to borrower’s credit requirements met status. For example:
 - When a credit appeal is initiated, approved or denied
 - When an endorser is approved for a loan
 - When PLUS Counseling is completed
 - When all credit requirements have been met
- **Booking Notification responses** – generated when a loan “books” (an MPN, an origination record, and the first actual disbursement are on file). A booking notification does not get sent for subsequent disbursements and adjustments.
- **Payment to Servicer responses** – generated when a borrower sends money to his or her servicer within 120 days of disbursement. The servicer treats this as a cancellation and a borrower may be eligible to receive the amount within the same academic year. The COD System will use the Payment to Servicer amounts when evaluating annual loan limits.
- **Subsidized Usage responses** – generated when there is a change to a loans subsidized usage values

Additional information about Unsolicited System-Generated responses can be found in the [COD Technical Reference](#).

Servicing

The Department has a multi-servicer, borrower-centric approach to servicing federally-owned loans, including all Direct Loans. Currently, we do this through the assistance of several federal loan servicers. The servicers are:

- FedLoan Servicing (PHEAA)
- Great Lakes Educational Loan Services, Inc.

- Nelnet
- Navient
- MOHELA
- HESC/Edfinancial
- CornerStone
- Granite State – GSMR
- OSLA Servicing
- VSAC Federal Loans

Once the first actual disbursement is accepted by the COD System, the loan is considered “booked” and is assigned and sent to a federal loan servicer. At the same time, a booking notification is sent to the school confirming that the loan has booked. Subsequent disbursements and adjustments to the disbursements are also booked and sent to the same servicer. However, for subsequent disbursements and adjustments, a booking notification does not get sent to the school.

Once the loan is on the federal loan servicer’s system, the servicer sends information to the borrower about the servicing of his or her loan.

In addition to the student or parent Direct Loan borrower receiving correspondence from his or her federal loan servicer, the servicer will be identified in the National Student Loan Data System (NSLDS). Both the student or parent borrower and the school will be able to view the servicer code and name associated with each loan in the NSLDS.

A school will also be able to view the federal loan servicer code and name associated with each Direct Loan via the [COD Web site](#). The school can access this information under the Person tab on the Web site’s top menu bar by clicking on Servicer and then entering the Award ID or the Social Security Number (SSN). The servicer will be identified under Borrower-Servicer Relationship.

The federal loan servicer information is also included on the Direct Loan SAS.