

From Source to Student: Direct Loan and FFEL Funds

Time Estimate:

Lecture	45 minutes
Exercise	5 minutes
Total Time:	50 minutes

By the end of this session, you will be able to:

- *perform the school's role in the flow of Direct Loan funds from the U.S. Department of Education (ED) to the student,*
- *perform the school's role in the flow of Federal Family Education Loan (FFEL) funds from the lender to the student, and*
- *certify a FFEL application.*

INTRODUCTION

Schools have very important responsibilities in both the Direct Loan Program and Federal Family Education Loan (FFEL) Program. In this session, we will focus on the roles of the school in both loan programs. While the programs themselves contain many similarities, the movement of funds from source to student is quite different.

The process of connecting students to their loan funds begins when the school receives the Student Aid Report (SAR) or Institutional Student Information Record (ISIR) from the student or Central Processing System (CPS). This is true for all Title IV funds. We discussed this process in detail in Sessions 13 and 14.

Then, the school makes sure the student is eligible for a loan and determines the amount of funds for which the student is eligible. This involves making sure that the student meets his or her eligibility requirements (as we covered in Session 2). Next, the school must calculate the loan amounts for which the student is eligible. In Session 24, we practiced calculating base and additional loan amounts.

At this point, let's examine the process of loan funds moving from their source to the student. We will begin with the Direct Loan Program.

DIRECT LOAN PROCESSING

Direct Loan processing, which is electronic, parallels Pell processing. Funds and information are exchanged between the school and the U.S. Department of Education (ED) using EDEXpress or other software.

The role of a Direct Loan school in the process of originating and disbursing loans depends on the school's level of participation. The three origination options are **Standard**, **Option 1**, and **Option 2**. (OH 1)

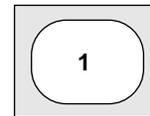
- All schools are eligible to operate under Standard Origination. They are the most dependent on the Direct Loan Origination Center (LOC) for several steps of the loan process.
- Schools meeting criteria in addition to those required for standard origination are eligible to operate under Options 1 and 2. These schools have more responsibility and are therefore more independent of the LOC than Standard Origination schools.

As we discuss the steps of loan processing, I will not go into significant detail about the differences in responsibilities among the levels. For more details, get a copy of *The 1998-99 Direct Loan School Guide**. Call 1-800-848-0978 to order this and any other Direct Loan publication or to ask questions about Direct Loan processing. (OH 2)

Loan Origination Record

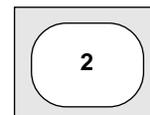
The Direct Loan process begins with schools creating loan origination records for recipients.

Instructor's Notes



Note to Instructor: Option 1 or 2 schools may operate at a level with less responsibility at any time by notifying ED and receiving an effective date. Standard Origination and Option 1 schools can apply to participate in a level with more responsibility after one full year of participation under their initial origination status.

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*The 1998-99 *Direct Loan School Guide* will be available in July, 1998

Using software developed either by ED or by the school, the school enters relevant data and transmits it to the LOC.
(OH 3)

- These data include vital information from the FAFSA and the students' Title IV history.

The LOC returns any records with errors or inconsistencies to the school for corrections.

Promissory Notes

Next, Direct Loan schools produce the promissory note. The school's role for this step depends on the school's level of participation. Some schools print their own promissory notes, while other schools must get theirs from the LOC. A sample Direct Loan promissory note is on page 3 of your Workbook. [IG, pg. 15]

Requesting Funds

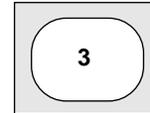
Generally, after the promissory notes are submitted, Direct Loan schools request the funds they need from ED.

- Some schools can request funds at the same time that they submit loan origination records to the LOC. They make the request either electronically or by telephone on the basis of "immediate need," which is defined as the amount of funds the school will need to disburse within **three business days**. (OH 4)
- For other schools, the Servicing Center requests funds for the school four calendar days before the anticipated dates. (OH 5)

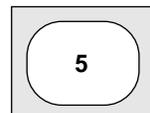
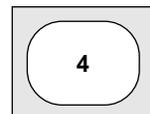
Disbursement of Funds

All Direct Loan schools control, within regulatory limits, when students receive their funds.

Instructor's Notes



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Before Disbursement

Before disbursement takes place, the school must again check to make sure potential recipients are eligible. This involves a review of enrollment status, previous Title IV debts, and satisfactory academic progress. (OH 6)

Also, all borrowers must undergo entrance loan counseling.

The Actual Disbursement

The loan funds are then disbursed to the student by way of cash, check, or credit to the student's school account.

- The earliest a student may be paid by cash or check is 10 calendar days before the first day of the enrollment period. For first-time, first-year borrowers, though, the school must wait until 30 calendar days after the student begins his or her classes to disburse the funds. (OH 7)
- Schools may credit a student's account at any time, but the disbursement is not considered to have occurred and the student is not considered to have received Title IV funds until 10 calendar days before the first day of the enrollment period.

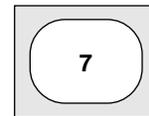
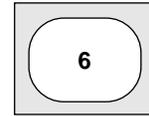
Schools do not need student authorization to credit student's school accounts with Direct Loan funds to cover tuition and fees and room and board.

- Written authorization is required, though, to credit other cost of attendance charges.

Note that schools usually must make **multiple disbursements**, in two or more installments, for all subsidized and unsubsidized loans.

- The requirements for multiple disbursements are explained in detail in Chapter 11 of the Handbook.

Instructor's Notes



Note to Instructor:
Exception—Single Disbursement:
A single disbursement may be made if the date of the first disbursement occurs on or after the earliest date that the second disbursement could be made.

Reporting Disbursements

Finally, Direct Loan schools have to match their disbursements with ED's reported disbursements, a Direct Loan School Account Statement (DLSAS), every 30 calendar days.

What questions do you have about processing Direct Loans?

FFEL PROCESSING

Now let's turn to FFEL Program loan processing.

The Common FFEL Application

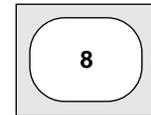
A student applying for FFEL funds must complete both a FAFSA and an FFEL application. This application has three sections: one to be filled out by the borrower, one by the school, and one by the lender.

Once the student completes the borrower portion of the application and submits it to the school, the school must: (OH 8)

- review the accuracy of the information that the student provided in the Borrower Section (this includes verifying that the student signed the promissory note);
- complete the School Section;
- sign the application, **certifying** that the information given in the School Section **and** in the Borrower Section is accurate to the best of the school's knowledge; and
- forward the application to the lender.

The Borrower Section

Chris Jackson, our sample student from the FAFSA session, is applying for a Federal Family Education Loan. Page 4 of your Workbook contains her FFEL application. Take a



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moment to read over items 1 through 16, which make up the Borrower Section. [IG, pg. 16]

- Notice that the Borrower Section includes the promissory note itself, which the student must sign. The document then serves as both an application for and agreement to repay FFEL funds.

Most of the items on this application are self-explanatory.

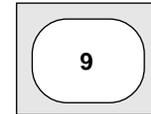
- Items 11 through 15, though, can be tricky. (OH 9)
 - For the school to certify an application for both a subsidized and an unsubsidized loan, students must specifically request both types of FFEL funds.
 - For example, if students do not request an unsubsidized loan on the application, then the school cannot certify them for an unsubsidized loan on the basis of that application. In that circumstance, students wishing to have that type of loan would have to complete a new FFEL application.
 - For an unsubsidized loan, students need to indicate their preference about paying interest on a monthly basis while in school or capitalizing interest (postponing the payments until later by adding accumulated interest to the principal).
 - Students who leave the interest question blank automatically will be required to make interest payments during the loan's in-school and deferment periods.

Does anyone have any questions about the Borrower Section of the loan application?

The School Section

The School Section of the application is comprised of Items 17 through 30.

Instructor's Notes

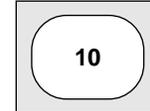


Note to Instructor:
Chris Jackson did not give permission to use EFT in Question 15. We will discuss this in a few minutes. [IG, pg. 10]

Instructor's Notes

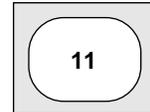
The aid administrator completes this section by: (OH 10)

- determining the student's cost of attendance,
- determining the student's estimated financial aid, and
- confirming the student's dependency status and Social Security number.



One of the important points emphasized in the Handbook is that the school has control over FFEL certification. (OH 11)

- The school has the authority to refuse to certify an otherwise eligible borrower's FFEL application or to certify it for a lesser amount.
- The school's reasons for refusing certification must be documented and provided, in writing, to the student and kept in the student's file.



Let's highlight some of the items in this section.

Item 19, Loan Period, should be the dates covered by the cost of attendance recorded in Item 24; it normally should agree with the information the student provided in Item 5 (Loan Period).

- For term schools, these dates should be the actual starting and ending dates of the term(s).
- For nonterm schools, these must agree with the dates for the academic year or the length of the student's program of study if less than an academic year.

A loan can be certified for a student after the start of a loan period and retroactively cover the entire loan period.

Item 20, Grade Level, is very important because Federal Family Education Loan limits are based on the student's grade level.

- Generally, the code is **1** for a first-year undergraduate, **2** for a second-year undergraduate, and so on.

- These grade levels may be on the basis of the student's completing specified hours, or they may be based on the student's actual year in college.
- Different guaranty agencies may have different policies for how the Grade Level Code is determined—if in doubt, check with them.

Item 21, Enrollment Status, must be checked, indicating the student's status during the loan period.

Q: What happens if the student's enrollment status is less than half time?

A: The student is ineligible for a loan.

Item 22, Anticipated Completion Date, allows lenders to estimate when loan repayment will begin.

Item 23, School Code/Branch, is the six-digit or eight-digit ED□ code assigned when the school was certified to participate in the FFEL Program.

Item 24, Cost of Attendance, is for the actual loan period. We covered the details of COA in Sessions 8 and 18.

For Item 25, the EFC is \$0 for Chris Jackson.

- The EFC is not needed for Federal PLUS Loans or unsubsidized FFELs.

Item 26 is the Estimated Financial Aid (EFA) for the loan period. We discussed EFA last session.

Item 27, Certified Loan Amounts, is divided into two parts—subsidized and unsubsidized. (OH 12)

- You must enter an **amount for both loan types** or processing will be delayed, so if the student is not eligible for, or not interested in, one of the loan types, enter \$0.

- **Do not leave either 27(a) or (b) blank.**

- The fact that the student's requested loan amount is within the calculated need does not mean that the loan amount is valid or that it will be awarded. It is a **requested** amount.
 - You still have to check that the student's requested amount will not exceed annual or aggregate maximums. Also consider the need for prorated loan limits, as we discussed last session.

Item 29, Recommended Disbursement Dates, is used to specify when disbursements must be made by a lender.

- The disbursement dates provided by the school must include month, day, and year.
- We'll discuss disbursement and delivery later in this session.

We have now covered all of the items in the School Section of Chris's FFEL application, except for the signature certifying the loan application.

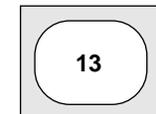
However, before certifying applications, there are other factors that you must consider. (OH 13)

- Determine Pell Grant eligibility for undergraduates before certifying their applications for FFEL funds.
- Check the student's enrollment status. Remember, the student must be enrolled at least half time.
- Finally, make sure the student is making satisfactory academic progress.

After completing the checks, the financial aid administrator completes Item 30, certifying the loan by signing his or her name, printing the name, and dating the application.

At this point, the application is ready to be sent to the lender for processing.

Are there any questions?



Lender Certification

The lender then completes the final section of the loan application. The lender also provides each student with an initial disclosure statement. The contents of this statement are described in Chapter 10 of the Handbook, as well as in section 682.205 of the regulations.

School Requests Funds from Lender

The term disbursement has a different meaning in FFEL than in Direct Loans. For FFEL purposes, the movement of loan funds from lender to school is called **disbursement**. (Funds moving from school to student is called **delivery**, which we will discuss shortly.)

For FFEL funds disbursed by electronic funds transfer (EFT) or master check, the school must request disbursement of the loan funds by the lender no more than 13 calendar days before the start of the student's period of enrollment. (OH 14)

- In the case of a first-time, first-year borrower, the school may not request the disbursement earlier than the 24th calendar day of the student's enrollment period.

The lender, having received and certified a loan application for each potential borrower, disburses the funds to the school. The lender also provides a copy of the completed promissory note and repayment information for each student for the school's files.

- Loan proceeds are disbursed to the school in the form of an EFT or by a check.
 - On #15 of the loan application the student authorizes the school to transfer funds by EFT or
 - Checks are made either payable to the student borrower **or** co-payable to the student borrower and school.

Notice that Chris Jackson did not authorize an EFT disbursement. Therefore, a check will be sent to the school on her behalf.

School Delivery to the Student

As with Direct Loans, the school must reaffirm that the student is still eligible before it can deliver any funds to the student.

Once this is done, the school can deliver the funds by paying the student directly or crediting the student's account.

If the funds were disbursed to the school by a check **payable to the borrower only**, the school must promptly deliver the check to the student.

If the check disbursed to the school was made **copayable to the borrower and the school**, a school performs one of the two following procedures:

- The school endorses the check on its own behalf and, after the student has registered, promptly delivers it to the student; **OR**
 - The school obtains the student's endorsement on the check, endorses the check on its own behalf and, after the student has registered, credits the student's account for outstanding school charges—for example, tuition and fees—and promptly delivers the remaining funds to the student.
- The school must notify the borrower within 30 days that funds have been credited to his or her account.

As with Direct Loans, FFELs can't be delivered more than 10 calendar days before the start of the student's enrollment period. For first-time, first-year borrowers, the school may not deliver the funds until 30 calendar days after the first day of the student's classes.

Instructor's Notes

When a student ceases enrollment, all of his or her loan proceeds may not have been disbursed or delivered. In this case, a late disbursement of funds to cover costs incurred while the student was enrolled may be allowable. We will discuss late disbursements in Session 27.

Documenting Loan Delivery

The final step in the loan process for FFEL schools is to provide a **clear audit trail** of loan delivery. These schools must be able to document the following items: (OH 15)

- The date the funds were received, the amount of the loan check, and the name of the student for whom the check is intended.
- The date the student endorsed the check.
- The amount credited to the student's account and the date it was credited.
- The amount paid directly to the student and the date it was paid. (OH 16)
- The amount of any funds returned to the lender and the date they were returned.

What questions do you have about the FFEL process?

REVIEW QUIZ

Regardless of whether a student's loan is Direct or FFEL, regulations require the loan to move from source to school to student within a given number of days.

Please take the quiz regarding timing on page 6 of your Workbook.

» Give the participants 2 minutes to answer the questions.

15

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Q1: "Immediate need" is defined as how many days?

A1: 3 business days.

Q2: An FFEL school may not request loan funds from a lender earlier than how many days before the enrollment period starts?

A2: 13 calendar days.

Q3: How many days do Direct Loan schools have to report disbursements?

A3: 30 calendar days.

Q4: How many days before the beginning of a student's period of enrollment may a school disburse or deliver loan funds?

A4: 10 calendar days.

Q5: How many days after classes start must a school wait to disburse or deliver loan funds for first-time, first-year borrowers?

A5: 30 calendar days.

PLUS LOANS

Although we haven't specifically mentioned parents' PLUS Loans, most of the rules of delivery and disbursement are the same as for student loans.

There is a separate PLUS application that a parent must complete, whether they're applying for a Direct Loan or an FFEL. If PLUS will be the only source of student aid, a FAFSA is not necessary.

As with a student loan, the school may require the parent borrower to endorse a PLUS check before the school negotiates the check. If the school uses EFT to deliver funds, the school must get written authorization from the parent borrower before delivering the loan proceeds to the student.

Instructor's Notes

This written authorization must not be obtained by the school earlier than 30 calendar days prior to the start of the enrollment or payment period.

- The loan may be delivered to the parent or, if authorized by the parent, to the student.

The school must confirm student eligibility before sending a check to the parent for endorsement and before delivering loan proceeds.

TERMS AND CONDITIONS

The back of both the Direct Loan promissary note and the FFEL application/prom note contain the terms and conditions to which the borrower is agreeing when signing the note. A sample is on page 5 of your Workbook. Insist that the borrower read this information before signing the note.

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BACK AT THE OFFICE

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If you are interested in becoming a Direct Loan school, you should order *The 1998-99 Direct Loan School Guide* by calling 1-800-848-0978. If you're an FFEL school, you should locate and review an FFEL application. Also, ensure that a mechanism is in place to verify student eligibility before loan funds are disbursed or delivered to the student.

What else should you do when you return to your office?

Insert Sample Direct Loan Prom Note - side 1

Insert Sample Direct Loan Prom Note - side 2

Chris Jackson's FFEL application