

# Direct Loans 101 – Direct Loan Overview

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## **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 Credit, 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 StudentAid.gov website
- 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, allows borrowers to add 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.

***KEY POINT: 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 StudentAid.gov website.

### **PLUS Credit Counseling**

PLUS Credit 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.

***KEY POINT: PLUS Credit 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 Credit Counseling is only available online via the StudentAid.gov website. While the completion of the new PLUS Credit Counseling is required only for the Direct PLUS Loan applicants identified above, the new PLUS Credit Counseling is also 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 StudentAid.gov website.
- 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®) form
- Direct Subsidized/Unsubsidized 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/Unsubsidized Loan MPN electronically via the StudentAid.gov website or on paper. **Note:** Borrowers must be permitted to sign a paper MPN if they choose not to complete the MPN electronically.

### **FAFSA and Master Promissory Note – Direct PLUS Loans**

For Direct PLUS Loans, a borrower must complete:

- FAFSA form (Graduate/professional students only)
- Direct PLUS Loan 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 StudentAid.gov website.

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 StudentAid.gov website 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.

## **Annual Student Loan Acknowledgement**

The “Annual Student Loan Acknowledgement” process (previously referred to as the “Informed Borrowing Confirmation” process) will be implemented in late April 2020 on StudentAid.gov. The new process will allow student and parent borrowers to view how much they currently owe in federal student loans, and to acknowledge that they have seen this amount.

**Note:** For the 2020–21 Award Year, the process will be available to borrowers, but it will not be required. For the 2021–22 Award Year, the process must be completed before a borrower can receive the first disbursement of the first loan the borrower receives for a particular award year (starting with loans associated with the 2021–22 Award Year).

The Annual Student Loan Acknowledgement is **in addition to** the existing MPN confirmation processes that we have approved; it does not require schools to make any changes to their MPN confirmation processes. Further, the Annual Student Loan Acknowledgement also **does not replace** existing counseling requirements. This means that in addition to completing the Annual Student Loan Acknowledgement, first-time student Direct Loan borrowers must also complete entrance counseling before receiving their first loan disbursement, and Direct PLUS Loan applicants who are determined to have an adverse credit history and qualify for a Direct PLUS Loan by obtaining an endorser or documenting extenuating circumstances must also complete PLUS credit counseling.

The Annual Student Loan Acknowledgement **is not** school-specific. If a borrower completes the process for a loan associated with a particular award year at one school, the borrower will not complete the process for another loan associated with that same award year again, even if he or she receives the other loan at a different school.

The Annual Student Loan Acknowledgement is also not specific to a particular loan type. For example, if a graduate student initially receives only a Direct Unsubsidized Loan and completes the Annual Student Loan Acknowledgement, but later receives a Direct PLUS Loan that is assigned to the same award year as the earlier Direct Unsubsidized Loan, the student is **not** required to complete another Annual Student Loan Acknowledgement before receiving the first disbursement of the Direct PLUS Loan.

Schools will receive information about borrowers' Annual Student Loan Acknowledgement completion in several ways, including Common Record responses, Common Record web responses, system-generated responses, COD web, COD edits, COD reports.

**Note:** While borrowers will see the term "Annual Student Loan Acknowledgement" on StudentAid.gov and in any borrower-facing materials, schools will see references to "Informed Borrowing Confirmation" on the COD website screens, in the tags for the COD XML schema, and in parts of the COD Technical Reference.

## **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 (message classes: COMREC, CRAA, or CRDL).

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.

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 sends 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 website'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 website](#).
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 three types of disbursement records:

<b>Disbursement Type</b>	<b>Characteristics</b>
Anticipated Disbursements	<ul style="list-style-type: none"><li>• Disbursement Release Indicator (DRI) is set to "False" in the Common Record or on the COD website.</li></ul>



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

A school draws down Direct Loan funds via the [G5 website](#) 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 within 15 days of the adjustment.

## **Reconciliation**

Direct Loan Reconciliation is the process by which Direct Loan funds received and disbursed as recorded on the Department of Education's (the Department's) systems are reviewed and compared with a school's internal records; AND

- Discrepancies are identified and resolved
- Reasons for remaining cash balances are documented

Direct Loan Reconciliation is a **mandatory** monthly process, as required under 34 CFR 685.300(b)(5). A school should reconcile all cash (Drawdowns and Refunds of Cash) and disbursement records (Actual Disbursements and Adjustments) with information in the COD System on an ongoing basis.

Direct Loan schools must also complete a final reconciliation to a zero (\$0) Ending Cash Balance at the end of their processing year. This should occur within a month or two of the school's final disbursements but no later than the Program Year Closeout deadline, which is the last processing day in July of the year following the end of the award 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 is a monthly statement, similar to a bank statement, which summarizes the school's processing activity for each month, and provides a record of all detailed transactions (cash and actual disbursement data) processed in the COD System during the reported period. The SAS is the school's primary tool used in required monthly reconciliation and program year closeout and should be compared to both financial aid and business office records. This report provides the Department's official ending cash balance as of the end date of the report, based on data submitted by the school. As such, all schools are required to receive the SAS on a monthly basis until they have officially closed out a program award year.

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

Additional information on the Direct Loan SAS is available in the COD Technical Reference, Volume VI, Section 8.

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

- Direct Loan SAS Disbursement Detail On-Demand
- Pending Disbursement Listing
- Actual Disbursement List
- [G5 website](#) and Reports

- [COD website](#) (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 website](#), 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.
- Annual Student Loan Acknowledgement (Informed Borrowing) information.

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 (message class: CRPN)*** – sent when a new MPN is completed electronically 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 (message class: CREC)*** – generated when Entrance, Financial Awareness or Exit counseling is completed electronically.
- ***Direct PLUS Loan Request responses (message class: CRSP)*** – generated when a Direct PLUS Loan Request is completed electronically.
- ***Credit Status responses (message class: CRCS)*** – 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 Credit Counseling is completed
  - When all credit requirements have been met
- ***Booking Notification responses (message class: CRBN)*** – 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 (message class: CRPS)*** – 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 (message class: CRSU)*** – generated when there is a change to a loan’s subsidized usage values
- ***Origination Fee responses (message class: CROF)*** – generated when a change to the Origination Fee, Interest Rebate Percentage and Disbursement Net, Fee and Rebate Amounts has been made by the COD System.
- ***Informed Borrower responses (message class: CRIB)*** – generated when a borrower completes the Annual Student Loan Acknowledgement process

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:

- CornerStone
- ECSI Federal Perkins Loan Servicer (Federal Perkins Loans only)
- FedLoan Servicing (PHEAA)
- Granite State – GSMR
- Great Lakes Educational Loan Services, Inc.
- HESC/Edfinancial
- MOHELA
- Navient
- Nelnet
- OSLA Servicing

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 on the [National Student Loan Data System \(NSLDS®\) website](#). The NSLDS is a central database that contains information about all of the student loan programs funded by the Department. Both the student or parent borrower and the school will be able to view the servicer code and name associated with each loan.

A school will also be able to view the federal loan servicer code and name associated with each Direct Loan via the [COD website](#). The school can access this information under the Person tab on the Website’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.