

## Disbursement Process Overview

In this document, we provide a high-level overview of the Direct Loan disbursement process. Direct Loan Disbursement is the process through which your school will complete a final confirmation of a student's or parent's eligibility for a William D. Ford Federal Direct Loan (Direct Loan) Program loan and inform the U.S. Department of Education's (the Department's) Common Origination and Disbursement (COD) System that it is ready to disburse actual funds to the student or parent. All Direct Loan funds will be made available electronically to your school for disbursement to the student or parent; the Department will send no checks to your school, students, or parents.

Through the Direct Loan disbursement process, your school must complete the following actions:

- Confirm all student or parent eligibility factors at time of disbursement
- Ensure that a valid Direct Loan *Master Promissory Note* (MPN) is on file in the COD System
- Ensure Entrance Counseling has been completed, if required
- Encourage Annual Student Loan Acknowledgment to be completed
- For Direct PLUS Loans, ensure that all credit requirements have been met
- Submit actual disbursement information to the COD System no earlier than seven (7) business days before actual disbursement date
- Receive responses regarding acceptance or rejection of actual disbursement information
- Draw down funds via G5, the Department's system through which funds are managed
- Disburse funds to student's school account or pay student or parent directly; notify student or parent
- Return unused funds per cash management regulations and adjust next drawdown
- Complete and submit updates to actual disbursement information, if necessary

In this document, we provide a high-level overview of the Direct Loan disbursement process. It is one in a series of high-level overviews developed for the Foreign School Direct Loan Processing area of the Foreign School Information page.

## Section 1 – Direct Loan Actual Disbursements

As explained in the document titled “Origination Process Overview”, once your school has confirmed student and parent eligibility, it will electronically communicate the loan origination information to the Department via the COD System. Through the origination process, your school informs us of who will receive Direct Loan funds, for what period, in what amounts, and, in most cases, on what anticipated dates. Think of the disbursement process as how your school will inform us of the actual amount your school will disburse and the actual date on which it will do so in preparation for drawing down the necessary funds.

An actual disbursement occurs when one of the following actions has been completed:

- Your school credits Direct Loan funds to a student’s school account
- Your school pays the student or parent directly by check or other authorized means

It is critical that disbursement information for a loan accurately reflect the amount of funds that were disbursed to a student or parent **and** the date on which the disbursement occurred so that the borrower’s repayment obligation can be accurately tracked and serviced. In addition, the timeframes within which a student or parent may cancel a loan disbursement are based on the actual disbursement date. Your school’s responsibilities related to student/parent notifications are described in the cash management regulations in Subpart K of 34 CFR Part 668. More information on cash management regulations is available in Volume 4 of the *Federal Student Aid Handbook* posted on the Knowledge Center.

Informing us of your school’s actual disbursement information allows us to make the funds available for your school to draw down and then disburse to the student or parent. Your school may submit actual disbursement date and amount information to the COD System no earlier than seven (7) business days before the actual disbursement date. Depending on the number of loans your school will process, you will use one of several software product options (see the sections below) that are available to assist schools in disbursing Direct Loans and communicating with the COD System.

## Section 2 – Student and Parent Eligibility

Prior to originating a Direct Subsidized Loan, Direct Unsubsidized Loan, or Direct PLUS Loan, your school will have confirmed student and parent, if applicable, borrower eligibility. Because origination often occurs well in advance of disbursement and some eligibility factors may change in the interim, your school must again confirm the student’s or parent’s eligibility immediately before disbursing the loan. Your school will use several resources, including the *Institutional Student Information Record (ISIR)*, to complete this confirmation.

**Direct Loan MPN Completion** – In addition to confirming eligibility, your school must ensure that each student and parent borrower has completed a Direct Loan MPN and that it is on file with the COD System. As a reminder, student and parent borrowers must complete a new MPN each academic year. In most cases, your students and parents will complete the appropriate Direct Loan MPN electronically via [StudentAid.gov](https://studentaid.gov). Regardless of the web, software, or system product your school uses, it will receive electronic notification when a student or parent completes an MPN via

StudentAid.gov. This notice will be sent to your school's Student Aid Internet Gateway (SAIG) mailbox. In addition, your school will be able to view completion information via the [COD website](#).

**Note:** If a valid Direct Loan MPN is not on file in the COD System when your school submits actual disbursement information, the COD System will reject the disbursement.

**Entrance Counseling Completion** – A first-time student borrower must complete Entrance Counseling before receiving the first disbursement of a Direct Subsidized/Unsubsidized Loan or Direct PLUS Loan. If the student is required to complete entrance counseling, your school must ensure that he or she has done so. If your school chooses to have students complete Entrance Counseling electronically via StudentAid.gov, it will receive electronic completion notification in its SAIG mailbox. In addition, your school will be able to view completion information via the COD website.

**Annual Student Loan Acknowledgment Completion** – All borrowers (both students and parents) will complete the Annual Student Loan Acknowledgment on StudentAid.gov. For a Direct PLUS Loan made to a parent borrower, **only the parent** completes the Annual Student Loan Acknowledgment. To complete the Annual Student Loan Acknowledgment, borrowers must have a username and password (FSA ID).

**Note:** While the Annual Student Loan Acknowledgment is currently available on StudentAid.gov, borrowers are not required to complete the Annual Student Loan Acknowledgment process.

**Credit Requirements Met** – For Direct PLUS Loans, credit requirements must be met before disbursing. For additional information about the credit requirements, refer to the COD Technical Reference.

Once your school has verified student or parent eligibility but no earlier than seven (7) calendar days before the actual disbursement date, it will inform the COD System of the actual disbursement date and amount. As explained in the next sections of this document, your school may use web, software, or system products to assist with submitting actual disbursement information to the COD System. Regardless of the product your school uses, it will receive electronic notification in its SAIG mailbox when an actual disbursement has been accepted or rejected. In addition, your school will be able to view the acceptance/rejection information via the COD website.

**Note:** If you submit actual disbursement date and amount information to the COD System earlier than seven (7) business days before the actual disbursement date, the disbursement will be rejected.

### **Section 3 – Disbursing Direct Loans: Using Direct Loan Origination Tool Option**

If your school opts to use the Direct Loan Origination Tool to process Direct Loans, authorized users at your school will prepare and submit actual disbursement information 1) when they originate the loan, if this is done within seven (7) business days of the actual disbursement date, or 2) via the COD Action Queue in all other cases. The COD Action Queue is a web-based approach to update anticipated disbursements – those that have a Disbursement Release Indicator or DRI = False and

are identified as “pending” in the COD Action Queue. The COD Action Queue is the means through which your school will locate the “pending” disbursement records, make the DRI = True, and trigger the availability of funds for your school to draw down from G5.

In addition to making the DRI = True, your school may first need to update other information about the disbursement. You will be able to do so online via the COD website. After completing any necessary updates, making the DRI = True, and submitting the disbursement, the disbursement’s status will change from “pending” to “active” in the COD Action Queue. To further document acceptance of the actual disbursement information, the COD System will generate a response to your school’s SAIG mailbox.

**Section 4 – Disbursing Direct Loans: Using Other Software/System Option**

If your school opts to use the EDExpress for Windows software, commercial vendor software, or a school-developed system, it will use the COD Common Record to prepare and submit actual disbursement information to the COD System. Using the COD Common Record Extensible Markup Language (XML) Schema, your school will submit Common Record Documents to the COD System in batches of one or more via the SAIG.

In follow up to submitting a COD Common Record batch, your school will receive a COD Common Record Response after the COD System processes the batch. The responses will let your school know if the records were accepted or rejected, and, if rejected, the reason for the rejection. Detailed technical guidance is available in the COD Technical Reference and the EDExpress for Windows user documentation posted on the [Knowledge Center](#).

**Section 5 – Disbursing Direct Loans: Processing and Funding Initiation**

Regardless of the processing approach your school uses (Direct Loan Origination Tool or other software/system), all information that your school submits about disbursements is processed by the COD System. After the COD System processes actual disbursements, it electronically transmits the information to G5, the Department’s system through which funds are drawn down and managed. Once G5 accepts the disbursement information from the COD System, the Direct Loan funding process is initiated, and your school will be able to draw down the funds from G5. **Note:** Funds for disbursements sent to G5 on a non-business day will be available on the next business day.

**The availability of funding in G5 is determined by when information is processed by the COD System and updated in G5 as shown in table below.**

| If an actual disbursement is processed by the COD System by... | Generally, funds will be ready for drawdown in G5 by ... |
|--|--|
| 10 a.m. Eastern time (ET) on a business day                    | 2 p.m. ET on the same business day                       |
| 10 p.m. ET on a business day                                   | 7:30 a.m. ET on the next business day                    |

For an overview of the funding process, refer to the document titled “Funding Process Overview” in the Foreign School Direct Loan Processing area of the Foreign School Information page.

## **Section 6 – Disbursing Direct Loans: Booking and Servicing**

Once the COD System has an origination record, an MPN, and a first actual disbursement on file, the student’s or parent’s Direct Loan will be considered “booked.” This means that the loan becomes a debt owed by the student or parent, and it is transmitted to one of the Department’s federal loan servicers for maintenance and collection throughout the life of the loan. Upon receipt of the student’s or parent’s Direct Loan information, the federal loan servicer will notify the borrower of the loan disbursement, other important information about loan terms and conditions, and how to contact the servicer. Once accepted by the COD System, all subsequent actual disbursements of the loan will be assigned to the same servicer. The servicer will communicate with the student or parent each time it receives information about a subsequent disbursement.

## **Section 7 – Disbursing Direct Loans: Updating Actual Disbursement Information**

After your school submits actual disbursement information, it may be necessary to update this information for some loans. As a reminder, it is critical that disbursement information for a loan accurately reflect the amount of funds that were disbursed to a student or parent **and** the date on which this occurred so that the borrower’s repayment obligation can be accurately tracked and serviced. When necessary, your school will do so via the COD website if it is a Direct Loan Origination Tool user or via COD Common Record batch processing if it is an EDEExpress for Windows, commercial vendor software, or a school-developed system user.

**Note:** If your school uses the EDEExpress for Windows software, commercial vendor software, or school-developed system approach to processing Direct Loans, it should prepare and submit actual disbursement updates via the batch process. Doing so ensures that all records between your school’s system and the COD System match. Refer to the EDEExpress for Windows user documentation or consult with your school’s software provider/IT staff for guidance on updating records via the COD website.