Introduction

We've reorganized the information in this volume, with the intention of clarifying the school's responsibilities with respect to Stafford and PLUS loans. These loans are offered through two delivery systems: the William D. Ford Federal Direct Loan (Direct Loan) Program and the Federal Family Education Loan (FFEL) Program. While the borrower's eligibility is the same under either program, the procedures are different because funds for Direct Loans are provided directly to the school by the federal government, while loan funds under FFEL are usually provided by a private lender and are guaranteed by a state agency.

THE WILLIAM D. FORD FEDERAL DIRECT LOAN AND FEDERAL FAMILY EDUCATION LOAN PROGRAMS

Part B of Title IV of the Higher Education Act of 1965 (HEA), as amended, created the guaranteed student loan programs. The Higher Education Amendments of 1992 (P.L. 102-325) renamed the guaranteed student loan programs the Federal Family Education Loan (FFEL) Program, which now comprises Federal Stafford Loans (formerly Guaranteed Student Loans), Federal PLUS Loans, and Federal Consolidation Loans. The Student Loan Reform Act of 1993 authorized the Direct Loan Program.

Schools administer the Direct Loan and FFEL Programs similarly. The main difference between these federal student loan programs is the source of funds for borrowers. The federal government provides funds directly to borrowers in the Direct Loan Program; lenders, insured by guaranty agencies and reinsured by the federal government, provide funds to FFEL borrowers. The federal guaranty on these loans replaces the security (the collateral) usually required for long-term consumer loans.

Note that although all FFEL-related guaranty agency procedures and policies must accord with the federal requirements discussed in this chapter, **individual guaranty agencies may have additional procedures and policies**. To obtain specific information about a guaranty agency's policies and procedures, contact that agency.

The following types of loans are available through both the Direct Loan and FFEL programs:

- **Subsidized Stafford Loans** are awarded to students who demonstrate financial need. Because the U.S. Department of Education (the Department) subsidizes the interest, borrowers are not charged interest while they are enrolled in school at least half time and during grace and deferment periods.

- **Unsubsidized Stafford Loans** are awarded to students regardless of financial need. Borrowers are responsible for paying the interest that accrues during any period. Independent students and students whose parents cannot get a PLUS have higher unsubsidized loan limits comparable to the amounts a dependent student's parent(s) can borrow under PLUS.

- **PLUS Loans** allow parents to borrow on behalf of their dependent undergraduate children who are enrolled at least half time. As with unsubsidized Stafford loans, borrowers are responsible for the interest that accrues on PLUS Loans throughout the life of the loan.

- **Consolidation Loans** allow any borrower to combine one or more federal education loans into a new Direct Loan or FFEL to facilitate repayment.

In this reference, unless specifically referred to as a Direct Loan or an FFEL, the terms "Stafford Loans," "Consolidation Loans," and "PLUS Loans" refer to loans in both programs.

RECENT CHANGES

We have significantly reorganized the material in this volume of the SFA Handbook so you may wish to review the Table of Contents to familiarize yourself with the new organization. In addition, we have added examples and include additional information about operating procedures. Therefore, we encourage you to review this entire volume, even if you have read it before.

Please note that we have limited the focus of this Volume to the DL/FFEL program requirements that apply to participating schools. The chapters on borrower repayment issues (including deferment, cancellation, and consolidation) are being revised to make those materials more useful as counseling materials for schools, including information in formats accessible to the borrowers themselves. Schools will receive copies of these materials early in 2001.

The majority of the changes in this year's edition were based on the regulations published on October 29 and November 1, 1999. The most notable changes include:

- the requirement that schools use the proproportional method exclusively, when prorating loan limits for programs of study or remaining portions of programs of study less than an academic year in length (see Chapter 3, discussion beginning on page 8-22).

- further description of the Master Promissory Note, in particular the multi-year feature (see Chapter 4).

- exemptions from certain disbursement requirements for schools with low default rates (see Chapters 4).

- new language permitting schools to use electronic means to provide entrance and exit counseling to students (see Chapter 5).

- a requirement that schools, lenders, and guaranty agencies inform borrowers of the existence of the Department's Student Loan Ombudsman's office (see Chapter 5).

We hope that you find the changes to this volume helpful. If you have questions or suggestions on ways to expand or improve the presentation of Stafford and PLUS loan issues, please feel free to e:mail our writing staff at:

sfaschoolspubs@ed.gov