

Payment to the Borrower

The Department (in Direct Loans) or a lender (in FFEL) provides loan funds to the school for payment to the student or parent borrower. The school is responsible for ensuring that the student is still enrolled at least half time and otherwise eligible at the time of payment. A school may credit loan proceeds to the student's account, pay the student or parent directly, or combine these methods. In 1996, cash management regulations set specific time frames for transfer of funds to the school and payment to the borrower—be sure to review Volume 2, Chapter 5 of this Handbook for a discussion of those disbursement requirements for all FSA programs.

THE DISBURSEMENT PROCESS

After receiving the loan funds from the lender (or the Department, in the case of Direct Loans), you will disburse the funds by crediting them to the student's school charges and/or paying the student directly.

A disclosure statement must be provided to the borrower either at or prior to the first disbursement. In the FFEL Program, the disclosure statement is provided by the lender or guarantor. In the Direct Loan Program, the school may choose to send disclosure statements or let the Loan Origination Center (LOC) send them. The disclosure will include information that is specific to the borrower's loan: the type of loan, anticipated disbursement amount(s), anticipated disbursement date(s), and instructions on how to cancel the loan(s). For any subsequent loans provided under an existing MPN, borrowers must also receive a "Plain Language Disclosure (PLD)" developed by the Department.

Checking eligibility at the time of disbursement

You've already certified that the student is eligible when you sent the loan information to the lender (see Chapter 4, "Starting the Loan Process"). However, you must also ensure that the student has maintained continuous eligibility before you disburse the loan.

The most common change that would make a student ineligible for a disbursement is if the student has dropped below half time, so it is important that your office have a system to check the student's enrollment status at the time of disbursement.

If the student has dropped below half time temporarily, you may still make a first disbursement (and subsequent disbursements) after the student resumes at least half-time enrollment. However, you must make sure that the student continues to qualify for the entire

NEW ▶ Disbursement exceptions have expired ...

Disbursements to 1st-time undergraduate students cannot be made until 30 days after the start of the program, and all loans must be made in multiple disbursements—the exceptions for schools with default rates $\leq 10\%$ has expired. See Volume 2, Chapter 5.

A Note on Terminology ...

Traditionally, the FFEL regulations have referred to the lender's "disbursement" of funds to the school, and the school's "delivery of the loan proceeds" to the student. More recently, the Cash Management regulations have defined the disbursement of a loan as the payment to the borrower.

In this chapter, we will use "disbursement" in the sense of the Cash Management regulations, that is, payment to the borrower.

Common Origination and Disbursement (COD) System for Pell Grants & Direct Loans

For 03-04 and 02-03 Direct Loan data & support:
<http://cod.sfa.ed.gov>
codsupport@afsa.com
1-800-848-0978

Paying Loan Funds to the Borrower

34 CFR 668.164, General Provisions

34 CFR 682.604, FFEL

34 CFR 685.303, Direct Loans

amount of the loan—the change in enrollment may have resulted in a significantly lower cost of attendance. The aid administrator must document this review in the student’s file.

Also remember that your school cannot retain the loan funds indefinitely—check Chapter 5 on “Cash Management” in *Volume 2*.

Late disbursements

NEW ♦ The Cash Management regulations were revised on November 1, 2002 to permit a school to make a late disbursement to a student for unpaid educational expenses within 120 days after the student withdraws or drops to less than half time enrollment. See Volume 2, Chapter 5. (34 CFR 668.164)

When you report the student’s change in enrollment status but expect the student to resume enrollment within a time period that is less than a payment period in length, you must specifically request that the lender make the second or subsequent disbursements. Otherwise, the lender is required by law to cancel the second disbursement. (See 34 CFR 682.207(b))

Payment rules in modular programs

→ When a student is attending a modular program, but won’t attend the first module, the date when classes begin for payment purposes is the starting date of the first module that the student will actually attend.

→ The earliest the school can pay a student who begins attendance in the second of three 5-week modules that make up the payment period, is 10 days before the first day of the second module. (Or 30 days after the second module begins, if the student is a first-time borrower.)

→ In the case of a first-time student borrower who enrolls in a 25-day summer mini-session, the student cannot be paid until the student has been enrolled for 30 days, which might fall between mini-terms, or between the mini-term and the next session in which the student is enrolled.

If the student has transferred from another school, you need to be sure that the student is not in default and is still within the annual and aggregate loan maximums. You can confirm this by checking the student’s loan history on the NSLDS Web site, or by reviewing the NSLDS loan history section of the ISIR, which has information that is current as of the time the ISIR was processed. You must also submit the transfer student’s name and identifiers to NSLDS through the “Inform” process, so that NSLDS can notify you of any changes in the student’s loan history that might affect eligibility at your school. (See Volume 1, Chapter 3 for more on the Transfer Student Monitoring process, and Chapter 3 of this Volume for more information on using the Aggregate Outstanding Principal Balance to determine if a student has exceeded the aggregate loan limits.)

Student starts later in the payment period

If a student delays attending school but begins attendance within the first 30 days of enrollment, the school may consider the student to have maintained eligibility for the loan from the first day of the enrollment period.

If the student established eligibility for payment, but became ineligible before receiving the full payment, you may make a late disbursement to pay for unpaid educational costs incurred while the student was enrolled and eligible. You are not required to obtain detailed expenditure information to establish the student’s educational costs, but may use a policy to be applied in all such cases. You may make a late disbursement up to 120 days after the student withdrew or dropped below half-time enrollment; after 120 days have passed, you must get approval from the Federal Student Aid programs. (This new rule is effective July 1, 2003, but the regulations permit early implementation as of the publication date of November 1, 2002.)

SUBSEQUENT & RETROACTIVE DISBURSEMENTS

In a non-term program, you cannot make a subsequent disbursement to the student until he or she has successfully completed the coursework already paid for. ***NEW*** In a non-term program using credit hours, this means the student must complete the weeks of study associated with the payment period as well as earning the credit hours. (This change was made to 34 CFR 668.22 on November 1, 2002, effective on July 1, 2003.)

To include an earlier period of eligibility when certifying a Stafford Loan, the student would have had to complete at least a half-time courseload in that period. At a term school, all completed coursework counts towards enrollment status, including F's and incompletes. For instance, you could include the Fall term and its costs when certifying a loan for the student in the Spring, if your school's half-time standard is 6 credit hours and the student received a B and an incomplete in two 3-hour courses taken that Fall.

If a student attended the previous payment period, but did not maintain eligibility for a Stafford Loan, you may not include the previous payment period or its costs in the loan period.

Disclosure Statement

The disclosure statement is not the same thing as the notification of a disbursement that your school must send to the student. An FFEL lender must give a borrower a copy of an initial disclosure statement prior to, or at the time of, the first loan disbursement. In the Direct Loan Program, a school may elect to provide this disclosure to the student, or, if the school prefers, the statement will be provided to the student by the Loan Origination Center. In addition to general information about the student's rights, this disclosure will include some information that is specific to the student's loan, such as:

- the principal amount of the loan and the actual interest rate;
- the amount of any charges, including any origination and insurance fees to be collected by the lender before or at the time of each loan disbursement;
- when repayment is required and when the borrower is required to pay the interest that accrues on the loan;

- the name and address of the lender and the address to which communications and payments should be sent;
- the minimum annual payment required, and minimum and maximum repayment periods; or
- an estimate of the monthly payment due the lender, based on the borrower's cumulative outstanding debt (including the loan applied for).

The disclosure statement must provide the most up-to-date information concerning the loan and must reflect any changes in laws or federal regulations that may have occurred since the promissory note was signed. If the student has questions about the statement or wishes to cancel the loan, he or she should contact the lender immediately. In either case, the student should **not** endorse a loan check or an EFT form authorizing transfer of loan proceeds to his or her account.