

Direct Loan Program Questions And Answers

Introduction

The William D. Ford Federal Direct Loan (Direct Loan) Program provides loans to eligible borrowers to cover postsecondary education costs. This document provides high-level information about the Direct Loan Program, grouped in several categories, based on questions received from schools interested in learning about the Direct Loan Program.

Contents

This document contains several categories.

Topic	See Page
Loan and Disbursement Processing	2
Master Promissory Note (MPN) Processing	3
Direct PLUS Loan Processing (both parents and Graduate/Professional Students)	4
Direct Loan Funding	5
Direct Loan Consolidation	6
Borrower Benefits and Communication	7
Customer Service for Borrowers	9
Customer Service for Schools	11
Default Prevention Information	13
Direct Loan Training Opportunities and Resources	14

Additional Information

This document is not intended to cover all aspects of the Direct Loan Program. Additional information is available online.

- Direct Loan Web Site: www.ed.gov/directloan
 - Information for Financial Aid Professionals (IFAP) Web site: www.ifap.ed.gov
 - Common Origination and Disbursement Web site: www.cod.ed.gov
 - Direct Loan Servicing Online Web site: www.dl.ed.gov
 - Direct Loan Consolidation Web site: www.loanconsolidation.ed.gov
 - Federal Student Aid Download Web site: www.fsadownload.ed.gov
-

Direct Loan Program Processing – Loan and Disbursement Processing

Loan and Disbursement Processing

Schools use the Common Record format to report person, award, and disbursement information (for all award types) to the Common Origination and Disbursement (COD) System. Schools can create and update these records in their own mainframe system, use software such as EDEXpress or custom software, or contract with a third-party servicer to perform these functions. Using one of these methods, the school then sends multiple records electronically to the COD System via the Student Aid Internet Gateway (SAIG).

Schools can also create or edit any individual student record directly on the COD Web site. In this case, schools have the option of receiving a Web response, which is then sent to the school's SAIG mailbox and can be downloaded and imported into the school's financial aid system to update its database.

Loan Types

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

There is no alternative loan type offered under the Direct Loan Program.

Questions and Answers

Q1. Is there a loan application for a Direct Loan?

A1. There is no separate loan application for Direct Loans. A borrower only completes a Free Application for Federal Student Aid (FAFSA) and a Master Promissory Note (MPN). The school determines the borrower's eligibility and loan amount.

Q2. What fees are borrowers charged to originate the loan?

A2. The Direct Loan Program does charge an origination fee. However, as part of the changes to the student loan programs made by the Higher Education Reconciliation Act of 2005 (the HERA), Pub. L. 109-171, the origination fee for Direct Subsidized Loans and Direct Unsubsidized Loans was reduced and will continue to be reduced through 2010.

Currently, for **all** Direct Subsidized Loans and Direct Unsubsidized Loans that are first disbursed on or after July 1, 2007 and before July 1, 2008, the origination fee is 2.5 percent. For **all** Direct Subsidized Loans and Direct Unsubsidized Loans that are first disbursed on or after July 1, 2008 and before July 1, 2009, the origination fee is 2.0 percent.

For all Direct PLUS Loans for both parent and graduate/professional student borrowers, the origination fee is 4 percent regardless of the first disbursement date.

Master Promissory Note (MPN) Processing

Overview There are two types of Master Promissory Notes (MPNs) for Direct Loans: one for student borrowers receiving Direct Subsidized Loans and Direct Unsubsidized Loans, and the other for parent borrowers or graduate/professional students receiving a Direct PLUS Loan. A borrower must complete and sign at least one MPN for the corresponding loan type. The MPN is very important because it is the legal instrument through which a borrower agrees to be responsible for repaying his or her Direct Loan.

Electronic MPNs Schools can have borrowers complete their MPNs electronically on the [Direct Loan Electronic Master Promissory Note Web site](#).

- Schools sign up by contacting the COD School Relations Center.
- The process is faster than paper processing and greatly reduces errors.
- Changes to the MPN do not require school action.
- Help text and e-mail are available to borrowers who need assistance.
- Schools and borrowers can view MPNs online.
- School options include 1) requiring an origination record to be in place before a borrower can complete an electronic MPN and 2) adding customized message text.

Paper MPN Options-School Print Schools can print their own MPNs.

- Bulk forms are available through [FSAPubs](#).
- Schools work with students to sign the MPNs.
- Schools send the MPNs to the U.S. Department of Education (the Department) for processing.

Paper MPN Options-COD Print Schools can have the COD System print MPNs.

- Option to have MPNs mailed to the school or directly to the borrower.
- Borrower can return the MPN to the Department or to the school.

Questions and Answers Q1. Who handles follow-up with borrowers with incomplete MPNs?
A1. The [Direct Loan Electronic MPN Web site](#) performs edits during the MPN completion process, which eliminates most errors and the need for follow-up. Paper MPNs submitted with errors are returned to the school/borrower for correction. As such, the school generally interacts with the borrower. However, COD Applicant Services is available to assist borrowers (and endorsers, when applicable) with Direct Loan MPNs and related documents.

Q2. How many reminder notices are sent to a borrower after an MPN is sent?
A2. If a school chooses to have the COD System print and mail their MPNs, a reminder package is sent at 30-day and 60-day intervals. If a school chooses to print their own MPNs, the school determines the reminder notice process.

Direct PLUS Loan Processing

Direct PLUS Loan Processing

In general, the Direct PLUS Loan process is the same as Direct Subsidized Loans and Direct Unsubsidized Loans. However, a credit check must be performed for Direct PLUS Loans.

Questions and Answers

Q1. Do you have a dedicated phone number for Direct PLUS Loan borrowers?
A2. Yes, the COD Applicant Services team at the COD School Relations Center can assist Direct PLUS Loan borrowers with credit appeals or endorser questions. The phone number is 800/557-7394.

Q2. Do you accept “parent increase requests” by phone?
A2. Parent borrowers work with their child’s school to request changes in loan amounts.

Q3. Do you have a Web site on which parents can apply for a Direct PLUS Loan and get a pre-approval?
A3. Parents apply for a Direct PLUS Loan through their child’s school according to the school’s procedures. A school can initiate a credit check as soon as it has the parent’s authorization to do so (see Question and Answer #4 below). Parents must also complete the Direct PLUS Loan Application and MPN. The MPN can be completed online via the [Direct Loan Electronic MPN Web site](#) at any time.

Q4. How does the credit check process work?
A4. Once a parent or graduate/professional student completes an MPN (which includes the applicant’s authorization for a credit check to be completed) or the school’s credit check authorization form, a credit check can be processed. A credit check can be initiated by the school via the [COD Web site](#) or by the COD System upon receipt of the Direct PLUS Loan origination data. The COD System will not initiate another credit check if one was completed within the past 90 days. Borrowers will receive written confirmation of the credit check result.

Q5. For how long are credit checks valid?
A5. A credit check is valid for 90 days.

Q6. Can endorser of Direct PLUS Loans complete the endorser addendum online?
A6. No. The COD System generates a customized paper endorser addendum and mails it directly to the borrower.

Direct Loan Funding

Direct Loan Funding Methods

Schools receive Direct Loan funds based on either of two funding methods:

- Advance Funded - schools request funds directly via the [G5 Web site](#). The amount of the drawdown is determined by the school, but is generally based on its immediate disbursement needs.
- Pushed Cash - schools do not request funds directly. COD System “pushes” funds (automatically sends electronic payments) to the school based on accepted actual disbursement data.

Direct Loan Transmission Methods

Under either method, Direct Loan funds are transmitted to the school’s bank account using either Automated Clearing House (ACH) or the FEDWIRE transmission method.

ACH payment requests made before 3:00 PM Eastern Time (ET) are deposited the next business day. Requests made after 3:00 PM ET are deposited within two business days.

FEDWIRE payment requests made before 2:00 PM ET are deposited on the same day. Requests made after 2:00 PM ET are deposited the next business day.

Communication

Direct Loan fund status can be tracked on the [COD Web site](#) and the [G5 Web site](#). Individual notification of funding requests will vary depending on the policy of the school’s chosen bank.

In addition, Pushed Cash schools receive a Funded Disbursement List that provides the total drawdown amount and all the loan disbursements to be paid with that drawdown.

Direct Loan Consolidation

**Consolidation
(all borrower
types)**

Consolidation allows a borrower to combine one or more of their eligible Federal education loans into one new loan. Borrowers can complete a Direct Consolidation Loan Application and Promissory Note. Because each borrower's circumstances are unique, the potential benefits of a Direct Loan Consolidation Loan will vary and cannot be covered in this document.

Schools and borrowers interested in Direct Loan Consolidation Loans can find additional information on the [Direct Loan Consolidation Web site](#).

Borrower Benefits and Communications

Overview

There are several borrower benefits in the Direct Loan Program.

Up-Front Interest Rebate

An up-front interest rebate is offered to Direct Subsidized Loan, Direct Unsubsidized Loan, and Direct PLUS Loan borrowers as a repayment incentive. Currently, the rebate amount is equal to 1.5 percent of the loan amount borrowed. The rebate is applied “up-front,” increasing the net loan amount that the borrower receives.

To keep the up-front interest rebate, a borrower must make their first twelve required monthly payments on time (within six (6) days of the due date). The Direct Loan Program does not count any deferment and forbearance periods used during this period of review. For example, if a borrower makes their first 3 payments on time and then needs a 12-month deferment due to unemployment, our system will ignore the deferment period and will wait for the borrower to make their next 9 payments before evaluating if the borrower has achieved 12 on-time payments.

If a borrower does not make their first twelve required payments on time, the Department will add the rebate amount back to the principal balance.

EDA

Borrowers who have entered repayment may choose to have their loan payments electronically debited from their bank account each month through the Electronic Debit Account (EDA) option. As an incentive for using EDA, the Direct Loan Program offers a quarter point (.25%) reduction in the interest rate while a borrower uses the EDA option to make loan payments. (The interest rate reduction does not apply during periods of deferment or forbearance.) While using the EDA option, borrowers also have the ability to pay additional amounts either thorough on-line payment via the Web site or by mailing in additional payments in order to pay off their loan faster.

Two Non-Sufficient Funds (NSFs) in a twelve-month period will remove a borrower from the EDA program. However, the borrower may reapply at any time.

Currently, there are over 1 million borrowers using the EDA option to make their Direct Loan payments.

Questions and Answers

Q1. Do you offer in-school deferment for graduate/professional student Direct PLUS Loan borrowers?

A1. Yes. Graduate and professional students who have Direct PLUS Loans are placed into an in-school deferment status based on the information reported by schools through the Enrollment Reporting process (formerly SSCR).

Q2. Do you allow borrowers to enter forbearance upon request?

A2. Yes, the Direct Loan Program regulations allow a borrower to receive a forbearance if he or she is temporarily unable to make loan payments due to poor health or other acceptable reasons. The borrower must request the forbearance.

Q3. Do you offer an extended repayment plan?

A3. Yes. In addition, there are other repayment plans available to borrowers. Detailed information about repayment plans is available on the [Direct Loan Servicing Online Web site](#).

Q4. Do you allow borrowers to defer payment? If yes, for what time period?

A4. Yes. The Direct Loan Program offers the same deferments that are available to borrowers in the Federal Family Education Loan (FFEL) Program. The maximum period for which a borrower may receive a deferment is determined in accordance with the Direct Loan Program regulations, and depends on the deferment type. Information about deferments is available on the [Direct Loan Servicing Online Web site](#).

Q5. How does Direct Loan Servicing capitalize interest?

A5. Direct Loan Servicing capitalizes all unpaid interest:

- Upon entering repayment
- Upon expiration of a deferment period
- Upon expiration of a forbearance period
- Annually for any borrowers repaying under the Income Contingent Repayment (ICR) who have payments that do not cover monthly interest accrual.

Q6. Do you notify Direct Loan borrowers of available benefits?

A6. Yes. We provide borrower benefit information, including:

- Eligibility requirements
- Ways of losing benefits
- If and how lost benefits can be regained

Q7. How is this information communicated to borrowers?

A7. We use a variety of ways to inform borrowers about their benefits, including:

- MPNs and related documents
- Direct Loan Counseling materials
- Disclosure statements
- Quarterly statements
- Direct Loan Servicing Online Web site
- Direct Loan Servicing Center –Borrower Services phone number
- Brochures
- Letters and/or e-mail
- Special outreach initiatives

Q8. When is this information communicated to borrowers?

A8. This information is provided to the borrowers at multiple points, including:

- During counseling
- At disbursement
- During school
- During grace period
- During repayment (including deferment and forbearance periods)
- Upon inquiry

Customer Service for Borrowers

Customer Service for Borrowers

Applicant Services (PLUS borrowers): Open 8:00 AM to 8:00 PM ET, Monday through Friday. The phone number is 800/557-7394. The center is located in Niagara Falls, NY.

Direct Loan Servicing Center: Open 8:00 AM to 8:00 PM ET, Monday through Friday. The phone number is 800/848-0979. There are two servicing locations, one in Utica, NY and one in Bakersfield, CA. The [Direct Loan Servicing Online Web site](#) and the Voice Response Unit (VRU) are available 24X7.

Other Languages and Services

All service centers offer both English and Spanish language services. TDD/TTY numbers are also available.

Direct Loan Servicing Center VRU

The Direct Loan Servicing Center VRU provides access to basic account information. The VRU provides account information and is available 24 X 7. Even during peak call periods, the VRU can be accessed to provide borrowers with detailed loan account information. Services are available in English and Spanish.

The VRU allows borrowers to:

- Learn requirements for maintaining eligibility for borrower benefits
 - Check aggregate loan amounts borrowed that reflect total loan cost, monthly repayment amounts, etc.
 - Check loan account information once in repayment
 - Request forms for deferment, forbearance, etc.
 - Review frequently asked questions (FAQ)
 - Access general 1098-E information
 - Access borrower-specific 1098-E information
 - Obtain information on all outstanding loans
-

Online Services for Borrowers

The [Direct Loan Servicing Online Web site](#) offers personalized online services from start (during counseling) to finish (repayment and payoff).

- Detailed account summary
- National Student Loan Data System (NSLDS) view of non-Direct Loan information
- Payment history
- Payoff quote
- 1098-E tax information (both general and borrower-specific)
- Electronic MPN access
- Update borrower contact information
- Access comprehensive information about Direct Loan terms and conditions and borrower benefits
- Requirements for maintaining eligibility for borrower benefits

- Aggregate loan amounts borrowed that reflect total loan cost, monthly repayment amounts, etc.
- Check loan processing status
- Forms available for download including deferment, forbearance, etc.
- Online screens that are Section 508 compliant
- Frequently asked questions (FAQ)
- Prominently displayed 800 number for students/borrowers to call
- Monitor status of loan benefits
- View all outstanding loans on one screen
- Change repayment plan
- Submit certain deferment and forbearance requests online
- Online payments capability
- Online entrance and exit counseling
- Repayment calculators/other debt management tools
- Financial literacy tools (budgeting, etc.)

Questions and Answers

Q1. Are there dedicated customer service representatives (CSRs) for each school's borrowers?

A1. No. Trained CSRs are available to all borrowers regardless of the school.

Q2. Does the same CSR handle repayment as well as new borrower inquiries?

A2. No. During the origination process, borrowers will work with the COD Applicant Services Team. Once the Direct Loan is booked, the borrower will work with the Direct Loan Servicing Center for the life of the loan.

Q3. If a borrower has a complex problem requiring multiple calls, will the borrower be able to contact the same CSR?

A3. In most cases, a borrower can resolve an issue on the first call. If additional follow-up is needed, any of the CSRs can assist a borrower even if the issue was discussed previously with a different CSR. In addition, notes about the contact and issue are logged and maintained in the system, so any CSR can see information about a previous call or issue. An escalation process is in place should an upper-level manager be requested.

Q4. Can callers bypass the VRU menu and opt to speak with a customer service representative?

A4. No. To assist in preparing a CSR with personalized borrower information and account history, callers must enter identifiers (including account number, date of birth, and zip code) before the option to speak to a CSR is presented. These steps take approximately 45 – 60 seconds to complete.

Customer Service for Schools

Customer Service for Schools

COD School Relations Center: Open 8:00 AM to 8:00 PM ET, Monday through Friday. The phone number is 800/848-0978. The center is located in Niagara Falls, NY. The [COD Web site](#) is available 24x7.

DL Servicing Center: Open from 8:00 AM to 8:00 PM ET, Monday through Friday. The phone number is 888/877-7658. There are two servicing locations, one in Utica, NY and one in Bakersfield, CA. The [Direct Loan School Services Web site](#) is available 24x7.

Other Languages and Services

All service centers offer both English and Spanish language services. TDD/TTY numbers are also available.

CSR Services for Schools

Schools have two call centers when in need of assistance. Each center specializes in a different aspect of the Direct Loan process.

COD School Relations Center: The COD School Relations Center assists schools at the “front-end” of the process. It provides a single point of contact for Direct Loan and Grant processing as well as support in using the [COD Web site](#). The COD Relations Center provides each school with primary CSR who monitors the school’s reporting, assists with rejected records and processing questions, assists with funding and reconciliation, and issue resolution. CSRs can also assist third party servicers.

Direct Loan Servicing Center: The Direct Loan Servicing Center assists schools at the “back-end” of the process, once the loan is booked. It provides a single point of contact for assisting schools with borrowers in repayment and with default prevention activities. The Direct Loan Servicing Center School Services team is specially trained to take calls from schools, but each school does not have a primary CSR. Issues or problems that cannot be addressed in one call are tracked and a follow-up plan is established.

Online Services for Schools

[COD Web site](#)

The COD Web site is a tool for processing and viewing Direct Loan data as well as assisting schools with trouble-shooting and issue resolution. The Web site provides schools with the ability to view, create, and update Direct Loan and Grant awards and disbursements. The Web site also provides schools with the ability to access and/or view most Direct Loan reports.

[Direct Loan Servicing Online for Schools Web site](#)

The Direct Loan Servicing Online for Schools Web site provides schools with resources and reports for viewing and managing their Direct Loan portfolio.

Account Lookup

Schools are able to view up-to-date account data for students including balances,

disbursements, account status, and separation dates. They can also review repayment estimates under each repayment plan based on the student's actual loan balance.

Reporting Tools

Schools are able to view summary and detailed reports for entrance counseling, exit counseling, delinquency, and portfolio management. Schools may also use the subscription function to select the frequency of how often they would like to receive a particular report.

Default Prevention Information

Overview

Federal Student Aid is committed to assisting schools in reducing delinquency and default. Regardless of cohort default rate, we know that it is crucial that all schools, large or small, take an active role in reducing the frequency and volume of loan default within a school's Direct Loan portfolio.

Federal Student Aid has developed additional FSA-based services that are available to schools. The Default Prevention Team can:

- Assist schools in preparing a comprehensive default prevention plan.
 - Suggest strategic interventions that build on existing institutional processes.
 - Assist schools in examining their student-borrower population over time.
 - Help identify underlying institutional factors, which may exert a negative impact on the rate of delinquency and default among borrowers.
-

School Assistance

As required by regulations, schools must complete exit counseling with borrowers and notify the Direct Loan Servicing Center of changes to a borrower's contact information or enrollment status. In addition, Federal Student Aid may request assistance with some default prevention activities, including:

- Borrower dispute resolution
 - Late Stage Delinquency Assistance (LSDA) – This 7-year-old process allows us, with strong collaboration with individual schools, to reach and assist vulnerable, at-risk borrowers in avoiding default.
-

Late Stage Delinquency Assistance (LSDA)

The Late Stage Delinquency Assistance (LSDA) process is a specific program designed to reach borrowers in the latest periods of delinquency and at risk of default. Borrowers who are more than 240 days delinquent but less than 361 days in making a payment on a Direct Subsidized Loan or Direct Unsubsidized Loan are considered in "late stage delinquency".

The process centers on the use of Web-based delinquency reports and assisting the Direct Loan Servicing Center find and counsel students that are in late state delinquency.

LSDA is designed as an easy, agreeable default prevention solution.

- There is no cost.
 - It requires few institutional resources, particularly in time or staff.
 - There is no special software to buy or maintain.
 - There is no special sign-up process or special training required.
-

Direct Loan Training Opportunities and Resources

Overview There is a variety of training opportunities and resources available to Direct Loan schools.

COD Computer-Based Training The COD Web site Computer-Based Training (CBT) simulates the COD System and functionality available to a school administrator. The updated COD CBT includes enhancements that have been made to the COD System from March 2004 through April 14, 2007. Additionally, a new Direct Loan Reports CBT, a new Grant Reports CBT, and new simulations of the [Direct Loan Electronic MPN Web site](#) have been developed.

- The COD CBT offers eight lessons with text and an open format to guide a user through each area of the COD Web site simulation. The user can explore basic navigation and functions of the COD Web site and practice locating and creating information in a safe environment with tips for assistance.
- The Direct Loan Reports CBT offers three lessons that explain the COD reports a school can use to assist with the reconciliation process for Direct Loan awards.
- The EMPN Online Simulations serve as a guide for understanding the [Direct Loan Electronic MPN Web site](#). Three separate simulations guide a user through the electronic MPN process. One additional electronic MPN simulation is available for the financial aid professional for assistance in [Direct Loan Electronic MPN Web site](#) functionality specific to the school user.

The program requires a Windows 98 or higher operating system with an ODBC driver for Microsoft Access 2000. Screen resolution should be set to 1024 x 768 or higher.

Link: <http://ifap.ed.gov/eannouncements/0928UpdCBTProgforCOD.html>

EExpress Basics Web-Based Training A self-paced Web-based training that teaches the basic skills required to access and to navigate the EExpress and EDconnect software.

Recommended for financial aid office professionals who have day-to-day responsibilities for using EExpress.

Link: <http://ifap.ed.gov/edexpress/index.htm>

FSA Coach Web-Based Training A comprehensive, introductory course on school requirements for administering the Federal Student Aid programs. The 37 lessons can be completed individually and at your own pace, allowing you to tailor the training to your specific needs.

Strongly recommended as a pre-requisite for the "Fundamentals of Title IV" or a

follow up to “Financial Aid Basics.”

Link: <http://www.ed.gov/offices/OSFAP/fsacoach/index.html>

**Interactive
Online
Training**

Federal Student Aid will periodically offer Direct Loan training through interactive Web training, called webinars. Participants access the classroom and materials through the Web on their office computer.

**Classroom
Training**

Federal Student Aid also periodically offers training in a classroom setting.

[Federal Student Aid Conferences](#)

Presentations from past conferences are also available using this link:
<http://ifap.ed.gov/presentations/07FSAConference.html>

[Fundamentals of Title IV Administration](#) (4.5 days)

A basic but comprehensive course that touches on all aspects of administering the Federal Student Aid programs, including: laws and regulations, administrative and financial systems, application processing, verification, disbursing funds, and reporting requirements.

[Financial Aid Basics](#) (3-4 days)

Intended for the new financial aid administrator, this course provides an introduction to Title IV programs, policies, and procedures; important resources available to help you administer the programs and find answers for your questions; and Title IV administrative and financial systems.

**Written
Materials**

Federal Student Aid offers a number of printed materials and resources for Direct Loan Schools.

[Direct Loan School Guide](#) - A concise description of what a school must do to make Direct Loans. Topics include how to determine student eligibility, counsel student borrowers, disburse loan funds, and report borrower and loan information to the Department. A complete updated guide is scheduled to be on the Web by late May 2008.

[COD Technical Reference 2008-2009](#) - The COD Technical Reference is an excellent resource for understanding how Direct Loans and MPNs are processed through the COD System.

- Volume I, Section 2 contains what has changed from the previous release.
- Volume II, Section 1 (the Implementation Guide) provides business rules for the origination process, disbursing funds, and the processing and linking of MPNs.
- Volume III contains an implementation guide geared to schools using EDEExpress in combination with another software product.
- Volume IV is dedicated to Direct Loan Tools, a Federal Student Aid product that assists schools in their cash management and reconciliation activities as required in the Direct Loan Program.

- Volume VI (the Appendices) contains important information on funding levels, reports and a glossary.
-