

*Loan counseling is particularly important because new students often have little or no experience with repayment and managing debt. Your school must ensure that the student receives comprehensive entrance and exit counseling, even though the counseling may be given by a consultant, servicer, lender, or guarantor (usually on the Web). At a minimum, you must provide entrance counseling to first-time Stafford borrowers before the first disbursement of a loan can be made, and exit counseling before leaving school. If the counseling is given electronically, you'll need to make sure that the student receives written counseling materials for any required information that is not provided in the electronic counseling presentation. Your school is also responsible for making knowledgeable staff available to answer student questions.*

This chapter covers the elements of entrance and exit counseling that are either required by regulation or recommended. However, there are many ways to deliver this information and to reinforce it through continuing contacts with your student borrowers. You have an opportunity at each disbursement to remind students about the importance of academic progress, planning for future employment, and staying in touch with the holder of the loan.

The Direct Loan Program and many FFEL guaranty agencies, lenders, and other organizations offer on-line counseling through the Web, videos, pamphlets, and other counseling materials. Your school may choose to rely on Web counseling services, if those services provide all of the information required by regulation. The program regulations have been amended to allow a school to provide counseling through “interactive electronic means.”

If your staff are conducting in-person counseling sessions, charts, handouts, audiovisual materials, and question-and-answer sessions can help convey the information in a more dynamic presentation. We also recommend the use of written tests to make sure that the student understands the terms and conditions of Stafford Loans. If the student fails the test, you should make sure that the student receives additional counseling.

Regardless of the counseling methods your school uses, you must be sure to document that the student participated in and completed entrance and exit counseling. In the case of Web-based counseling, the documentation may consist of the student's certification on a copy of the “Borrower's Rights and Responsibilities” that he/she has received entrance counseling. You can usually get confirmation that the student has completed

#### Loan counseling in regulations

FFEL: 34 CFR 682.604 (f) and (g)

DL: 34 CFR 685.304

#### Student Loan Guide

This Guide is available on-line as part of the FSA Handbook, and contains consumer information about student loans. The first two chapters of the Student Loan Guide contain most of the information required for entrance and exit counseling requirements. (The chapters also list the additional information that you'll need to provide.)

#### Direct Loan counseling materials

Direct Loan schools can order counseling materials by calling:

**1-800-848-0978**

On-line counseling and print materials are also available on-line at the Direct Loan Web Site:

<http://lo-online.ed.gov>

### Entrance counseling

FFEL—34 CFR 682.604(f)

DL—34 CFR 685.304(a)

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### Counseling materials for overseas or correspondence students

Web-based counseling sites can be particularly useful for borrowers who are participating in a school's year-abroad program or other off-campus program, such as correspondence study. If the borrower has not previously received a loan at that school, the school must document that the student has completed on-line entrance counseling that meets FSA requirements, or provide entrance counseling information by mail before releasing loan proceeds.

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### Counseling as part of a Default Management Plan

A school with a high default rate may be required to implement a Default Management Plan (see 34 CFR 668.198). The sample plan included in the regulations mentions several steps that relate to loan counseling:

- ➔ Enhance the borrower's understanding of his or her loan repayment responsibilities through counseling and debt management activities.
  - ➔ Enhance student loan repayments through counseling the borrower on loan repayment options and facilitating contact between the borrower and the data manager or FFEL Program lender.
  - ➔ Keep statistics on the number of enrolled borrowers who received default prevention counseling services each fiscal year.
- (Appendix B to Subpart M of 34 CFR 668)

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### Alternative entrance counseling approaches

The Direct Loan regulations describe how a school may adopt alternative approaches as a part of its quality assurance plan—see 34 CFR 685.304(a)(5)

the on-line counseling session through a printout, electronic message, or other means.

The regulations also require (for any form of counseling) that someone with expertise in the FSA programs be available shortly after the counseling to answer borrowers' questions about those programs.

The chart at the end of this chapter summarizes information to be covered as a part of entrance and exit counseling sessions. The arrows indicate those elements that must be covered in both entrance and exit counseling.

## ENTRANCE COUNSELING

A school must conduct "initial" or entrance counseling before releasing the first disbursement of the first Federal Stafford Loan made to a student borrower. The counseling must be conducted in person, by audiovisual presentation, or by interactive electronic means, and a person knowledgeable about FSA programs must be available for to answer questions shortly after the counseling session.

### *Required elements of entrance counseling*

The Direct Loan and FFEL regulations and Program Participation Agreements require that certain information be included in entrance counseling. Some of this information is included in the "Borrower's Rights and Responsibilities" statement that must accompany the MPN, but you should review and elaborate on these points as a part of the counseling presentation.

- **Reinforce the importance of repayment.** The regulations also require that entrance counseling "emphasize ... the seriousness and importance of the repayment obligation." The counseling should stress that the borrower must make payments on his or her loans even if the borrower does not receive a payment booklet or a billing notice. The lender or Direct Loan Servicing Center sends payment coupons or billing statements as a convenience for the borrower. Not receiving them does **not** relieve the borrower of his or her obligation to make payments. (Direct Loan borrowers are encouraged to set up electronic debiting of a bank account to repay their loans—electronic debiting is also available through many FFEL lenders.)
- **Describe the consequences of default.** The regulations require that entrance counseling "describe the likely consequences of default, including adverse credit reports, federal offset, and litigation." We also recommend that you tell the borrower of the charges that might be imposed for delinquency or default, such as the lender's or guarantor's collection expenses (including attorney's fees). Defaulters often find that repayment schedules for loans that have been accelerated are more stringent than the original repayment schedule. A defaulter is no longer eligible for any deferment provisions,

even if he or she would otherwise qualify. Finally, a defaulter's federal and state tax refunds may be seized and wages garnished, and the borrower loses eligibility for any further funding from the FSA programs.

- **Explain the use of the Master Promissory Note.** If relevant at your school, explain the use of the multi-year feature of the MPN, and the borrower confirmation process. You should advise the student to carefully read the MPN and the Borrower's Rights and Responsibilities statement before signing the MPN.
- **Stress that repayment is required, regardless of educational outcome or subsequent employability.** Entrance counseling information must explain that the student borrower is obligated to repay the full loan even if he or she doesn't finish the program, can't get a job after graduating, or is dissatisfied with the school's educational program or other services.
- **NEW FOR FFELP** ♦ **Provide sample monthly repayment amounts.** The student must receive sample monthly repayment amounts for different levels of indebtedness, or for the average indebtedness of Stafford borrowers at your school or in the same educational program.
- **Review the availability of state grant aid.** In the Program Participation Agreement (PPA), a school agrees to tell eligible borrowers about the availability of state grant assistance in the state where it is located. For out-of-state students, a school must provide a source of information for state grant assistance in the student's home state. (Note that a list of state agency telephone numbers is included in the back of the *Student Guide*, which you can order from the Department by going to the Schools Portal at [fsa4schools.ed.gov](http://fsa4schools.ed.gov)). In general, you should always encourage your student borrowers to explore sources of grant assistance that might reduce their need for loans.

### ***Other suggestions for entrance counseling***

In addition to the required elements above, counselors often include some of the following information in their sessions. (Some of these items were included in an Appendix to the General Provisions, published in 1989 as recommendations for schools that were required to adopt default management plans.)

- **Review terms and conditions of the loan.** As a part of entrance counseling, tell the borrower the current interest rate on his/her loan(s), the applicable grace period, and the approximate date the first installment payment will be due.

Often a student loan is the borrower's first experience in obtaining a loan of any kind, so it helps to clearly explain basic loan terminology to ensure that a borrower understands the process and knows who holds his/her loan. For instance, define terms such as "loan servicer," the use of contractors to

service the loan, and the process of selling loans to other lenders or to “secondary markets.” (A loan servicer is a corporation that administers and collects loan payments for the loan holder. A secondary market is a lender or a private or public agency that specializes in buying student loans.)

- **Review repayment options.** Explain that the **exact** repayment schedule will not be provided until loan repayment begins. Tell the student that certain fees (the origination fee and, for FFEL, an insurance fee) will be subtracted from the loan amount before the loan is disbursed but that repayment of the **full** loan amount is required. Review the availability of different repayment plans (standard, extended, graduated, income-sensitive/contingent), as well as loan consolidation.
- **Discuss how to manage expenses (budgeting).** It would also be helpful to include general information for the student about budgeting of living expenses and personal financial management. Financial planning includes decisions by the borrower about the amount of student aid that he or she can afford to borrow. Budgeting information can be combined with an assessment of the student’s earning potential in his or her chosen career, and with required information about anticipated monthly payments and overall indebtedness.
- **Reinforce the importance of communicating change of status, etc. to the lender.** The counseling should stress the student’s obligation to keep the lender (or the Direct Loan Servicing Center) informed about address changes, or changes in enrollment. (Failure to tell the lender about these changes is one of the most common reasons why a loan goes into default.) The borrower should always know the most current name and address of the lender, the loan servicer, and the guarantor of the loan.

The student is required to inform the lender when he or she graduates, changes schools, drops below half time, or withdraws from school. The borrower also must tell the DL Servicing Center or the lender if his/her address changes (including changes in the permanent address while in school). The student should also be reminded of the importance of notifying the holder of the loan in the event of a name change (including the change of a last name through marriage) or a change in Social Security Number.

- **Review deferments, forbearance, etc.** The borrower should have a general understanding of the deferment, forbearance, and cancellation options, and how to apply for them. The counseling should stress that the borrower needs to contact the lender if he or she is having difficulty in repaying the loan, as the lender may be able to suggest options that would keep the loan out of default.

- **Review Borrower's Rights and Responsibilities.** As noted in Chapter Four on the loan process, the student must receive a statement of Borrower's Rights and Responsibilities. This may be provided by the Direct Loan Origination Center or the FFEL lender, but it's a good idea to review the information on the statement with the borrower to make sure that he or she is familiar with that information.
- **Refund and other policies affecting withdrawals.** The borrower should be aware of the school's academic progress policy and refund policy, and how the return of FSA funds will affect loan repayment.
- **Importance of keeping loan records.** This would be a good time, if your school has the resources, to provide a student with a folder or other aids to encourage him or her to keep all financial aid materials in one place. The student should keep copies of all records relating to the loan, beginning with the Master Promissory Note and notices showing when the student received loan payments or his/her account was credited. The student should keep the loan repayment schedule provided by the lender when repayment begins, as well as records of loan payments—including canceled checks and money order receipts. The student should keep copies of any requests for deferment or forbearance, or any other correspondence with the lender.
- **Reminder about exit counseling.** Because many students leave school before the scheduled end of their academic programs, it's helpful to remind students during entrance counseling that they are obligated to attend exit counseling before they cease to be enrolled **at least half time**.

### Borrower's Rights and Responsibilities Statement

These are the contents of the statement that the borrower must receive prior to signing the Master Promissory Note.

- Governing Law
- Use of This Note
- Subsidized and Unsubsidized Loans
- Maximum Program Loan Amounts
- Maximum Individual Loan Amounts
- Use of Loan Money
- Disbursement of Loan Money
- Change of Status
- Effect of Loans on Other Student Aid
- Grace Period
- Repayment
- Interest Rates
- Payment of Interest
- Loan Cancellation
- Sale or Transfer of Loans (FFEL)
- Loan Discharge
- Consequences of Default
- Capitalization of Interest
- Credit Bureau Notification
- Special Repayment Arrangements
- Deferments
- Forbearance
- Repayment Chart (showing repayment amounts under different repayment plans, based on varying amounts of initial debt)

### Exit counseling

#### requirements cites

DL—34 CFR 685.304(b);

FFEL—34 CFR 682.604(g)

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### Staying in touch with the Direct Loan

#### Servicer

If they keep their PIN numbers handy, Direct Loan borrowers can manage their loans on-line by going to:

<http://www.dlservicer.ed.gov/>

to check account balances, change address, estimate repayments, or print out forms (deferment, forbearance, electronic debit account).

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### Exit counseling for correspondence and study-abroad students

As an alternative for correspondence programs, or study-abroad programs that are approved by the U.S. school for credit, you must send the borrower written counseling materials within 30 days after the borrower completes the program, with a request that the borrower provide the contact and personal information that would ordinarily have been collected through the counseling process.

## EXIT COUNSELING

Your school may provide exit counseling in person, either individually or in groups. As with entrance counseling, exit counseling is offered on the Web by many guarantors, lenders, and by the Direct Loan Program.

Student borrowers should be advised to complete on-line exit counseling or sign up for a counseling session (if offered at your school) shortly before graduating or ceasing at least half-time enrollment. As with entrance counseling, knowledgeable financial aid staff at the school must be reasonably available to answer questions from student borrowers. One of a borrower's obligations is to participate in an exit counseling session.

### **Responsibilities if a student misses exit counseling**

If the student borrower drops out without notifying your school, you must confirm that the student has completed on-line counseling, or mail exit counseling material to the borrower at his or her last known address. The material must be mailed within 30 days after your school learns that the borrower has withdrawn or failed to participate in an exit counseling session.

If you're mailing these exit materials, you're not required to use certified mail with a return receipt requested, but you must document in the student's file that the materials were sent. If the student fails to provide the information, you are not required to take any further action.

### **Required elements of exit counseling**

Some of the material presented at the entrance counseling session will again be presented during exit counseling. The emphasis for exit counseling shifts, however, to more specific information about loan repayment and debt-management strategies. The following information must be provided as a part of exit counseling:

- **Review information from entrance counseling.** Several topics that were covered in entrance counseling must be reviewed during exit counseling: the consequences of default and the importance of the repayment obligation, the use of the Master Promissory Note, and the obligation to repay the loan even if the borrower drops out, doesn't get a job, or is otherwise dissatisfied with the quality of the school's educational programs and services.
- **Provide an average anticipated monthly repayment amount.** The borrower must be given an estimate of the average anticipated monthly payments based on his/her indebtedness (or on the average indebtedness of Stafford borrowers at your school or in that program). We recommend giving the borrower a sample *loan repayment schedule* based on his/her total indebtedness. A loan repayment schedule usually will provide more information than just the expected monthly payment—for instance, it would

show the varying monthly amounts expected in a graduated repayment plan.

Note that the lending organization is not required to send the repayment schedule to the borrower until the grace period. Direct Loan borrowers who use the On-line Exit Counseling Session ([www.dlsvc.ed.gov](http://www.dlsvc.ed.gov)) can view repayment schedules based on their account balances (using their PIN numbers), select a repayment plan, and update demographic information.

In Direct Loans, a school may request that the Servicing Center send the repayment schedule information to the financial aid office 30, 60, or 90 days before the student completes the program. If the school chooses this option, it accepts the obligation to deliver this repayment information to the borrower either in the exit counseling session or by mailing it to the borrower.

- **Review repayment options.** The counseling must review the available options for loan repayment, such as the standard, extended, graduated, and income-contingent/income-sensitive plans. The option of consolidating loans must also be discussed.

Both the Direct Loan Program and the FFEL Program offer Consolidation Loans. Direct Consolidation Loans are available from the U.S. Department of Education. FFEL Consolidation Loans are available from participating lenders such as banks, credit unions, and savings and loan associations.

- **Discuss debt management strategies.** A counselor should stress the importance of developing a realistic budget based on the student's minimum salary requirements. It's helpful to have the student compare these costs with the estimated monthly loan payments, and to emphasize that the loan payment is a fixed cost, like rent or utilities.
- **Review forbearance, deferment, and cancellation options.** The counseling should reinforce the availability of forbearance, deferment, and cancellation for certain situations, and emphasize that in most cases the borrower must start the process by applying to the lender or the Direct Loan Servicing Center. It's also very important that the borrower remember that he or she must continue to make payments on the loan while waiting for approval of his or her request.
- **Tell the student about the availability of loan information on NSLDS and the availability of the FSA Ombudsman's office.** The borrower's loan history can be viewed on-line at the Web site for the National Student Loan Data System (PIN required for access). In addition, students without Internet access can identify their loan holder by calling 1-800-4-FED-AID.

### Checking completion of on-line exit counseling

Direct Loan schools can use the program's Web site to confirm which of their students have completed on-line exit counseling:

<http://www.dlsvc.ed.gov/schools/>

Similar on-line counseling services are provided by guarantors in the FFEL program.

### Pros and Cons of Consolidation

A Consolidation Loan can lower the borrower's total monthly repayment, and simplify loan repayment. Because the repayment period for the Consolidation Loan is longer than for most Stafford Loans, the monthly payments should be lower. (On the other hand, the total interest paid over the life of the loan is usually greater.) If the borrower has more than one loan, a Consolidation Loan simplifies repayment because there's only one lender and one monthly payment. Consolidation may also be an option for a borrower in default, if certain conditions are met.

The borrower should also be aware that some deferments and other benefits available with his/her current loans (especially Perkins) may be lost through consolidation.

**FSA Ombudsman Office**

Toll-free: 1-877-557-2575  
<http://fsahelp.ed.gov>

U.S. Department of Education  
FSA Ombudsman  
830 First Street, NE  
Fourth Floor  
Washington, DC 20202

fax: 202-275-0549

However, the borrower should be aware that the information on the NSLDS site is updated by lenders and guarantors and may not be as current as the latest information from those loan holders.

The Ombudsman's office is a resource for borrowers to use when other approaches to resolving student loan problems have failed. Borrowers should first attempt to resolve complaints by contacting the school, company, agency, or office directly involved. If the borrower has made a reasonable effort to resolve the problem through normal processes and has not been successful, he or she should contact the FSA Ombudsman.

- **Collecting and updating personal and contact information.** During exit counseling, the financial aid administrator must obtain the borrower's expected permanent address after leaving school, the address of the borrower's next of kin, and the name and address of the borrower's expected employer (if known). A school must correct its records to reflect any changes in a borrower's name, address, Social Security Number, or references, and it must obtain the borrower's current driver's license number and state of issuance. Within 60 days after the exit interview, the financial aid office must provide this information to the guarantor (indicated in the borrower's student aid records) or the Direct Loan Servicing Center.

***Further recommendations for exit counseling***

It's a good idea to provide the student with the current name and address of the borrower's lender(s), based on the latest information that your school has. The counseling presentation might also explain to the student how to complete deferment forms and prepare correspondence to the lender.



## Entrance Counseling

### Required Elements:

Reinforce importance of repayment

Describe consequences of default

Explain use of the Master Promissory Note

Stress that repayment is required regardless of educational outcome and subsequent employability

**NEW** ▶ Provide sample monthly repayment amounts for different amounts of debt, or for average debt of Stafford borrowers at school or in same program

Review the availability of state grant aid

### Other Suggestions for Counseling:

Review terms and conditions of the loan

Review repayment options

Discuss how to manage expenses (budgeting) while in school

Reinforce importance of communicating change of status, etc., with the lender

Review deferment, forbearance, cancellation options and procedures

Review Borrower's Rights and Responsibilities

Review refund and other policies affecting withdrawals

Reinforce importance of keeping loan records

Remind student of exit counseling requirement

## Exit Counseling

### Required Elements:

Review these four elements from entrance counseling

Provide an average anticipated monthly repayment amount, based on borrower's indebtedness or for average debt of Stafford borrowers at school or in same program

Review repayment options (standard repayment, extended, graduated, income-sensitive/contingent) and consolidation

Discuss debt management strategies that would facilitate repayment

Review forbearance, deferment, and cancellation options and procedures

Tell the student about the availability of loan information through the NSLDS Web site, and the availability of the FSA Student Loan Ombudsman's Office

Collect driver's license number and state of issuance, expected permanent address, address of next of kin, and name and address of employer (if known), and update any changes to student's personal information (name, social security number, etc.).

### Other suggestions for counseling:

Provide student with contact information for lender(s) and reinforce importance of communicating change of status, etc., with the lender