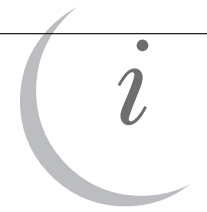

Introduction



These loans are offered through two programs with different 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.

Federally guaranteed loans were first authorized in Part B of Title IV of the Higher Education Act of 1965 (HEA). For many years, these were termed “Guaranteed Student Loans.” The Higher Education Amendments of 1992 (P.L. 102-325) renamed the guaranteed student loan programs the Federal Family Education Loan (FFEL) Program, comprising Stafford Loans for students and PLUS loans for parents. The Student Loan Reform Act of 1993 authorized the Direct Loan Program, which is now Part D of the Higher Education Act. The loans that are offered under these two programs have the same eligibility rules and the same annual and aggregate maximum amounts.

The primary difference between the Direct and FFEL loan programs is the source of funds for borrowers. Funds for Direct Loans come from the federal government; loans made through the FFEL program are provided by private lenders and are insured by guaranty agencies and reinsured by the federal government. The federal guaranty on the FFEL loans replaces the security (the collateral) usually required for long-term loans from banks and credit unions.

Several thousand financial institutions participate in the FFEL program. In addition, some schools have opted to become lenders in the FFEL program. (See Chapter One for more information on the requirements for schools to act as FFEL lenders.)

The regulations for the FFEL Program are found at 34 CFR 682, and for the Direct Loan Program at 34 CFR 682. Note that although guaranty agency procedures and policies must conform to the FFEL 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. (The Direct Loan Program regulations refer to the Federal Direct Stafford/Ford Loan Program and Direct Subsidized Loans .)
- **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. (The Direct Loan Program regulations refer to the Federal Direct Unsubsidized Stafford/Ford Loan Program and Direct Unsubsidized Loans.)

- **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 a borrower to combine one or more federal education loans into a single loan to facilitate repayment. Because the repayment period is longer, consolidation loans may be a way to reduce the borrower’s monthly payments; however, the total interest repaid over the life of the loan is usually higher. The process of consolidating loans usually does not directly involve the school—the consolidating lender purchases qualifying student loans from other lenders.

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

Several significant changes to the loan programs have recently taken effect. The statutory authority for the disbursement exceptions for schools with default rates less than 10% has expired (see sidebar notes to pages 8-45, 8-46, and 8-61). The Department has issued a new version of the Stafford MPN, expanded the use of the multi-year feature of the MPN to all schools located in the U.S., and approved the first PLUS MPN. (See pages 8-39, 8-41, and 8-48)

The program regulations published in the Federal Register on November 1, 2002, also made a number of changes that affect these loan programs.

- ◆ Modified counseling requirements, including requirements that schools provide sample monthly repayment amount to student during entrance counseling (new for FFEL) and tell borrowers about Loan History information on NSLDS (See Chapter Five).
- ◆ New late disbursement policies and procedures (8-62).
- ◆ Students in non-term programs must complete weeks of instruction as well as academic work in a payment period prior to receiving payment for subsequent payment period (8-63).
- ◆ The limits on leaves of absence have been modified (sidebar note, 8-66)
- ◆ Link to Federal Register: <http://ifap.ed.gov/fregisters/FR1101200203.html>.

We’ve also expanded our discussion of loan issues to incorporate material from Dear Colleague letters and other Departmental guidance:

- ◆ Choice of EFC for “crossover” loan periods (8-11).
- ◆ School may not have a policy of certifying loans only in amounts to cover school charges, or to limit unsubsidized borrowing by independent students (8-14).
- ◆ Receipt of Stafford/PLUS at more than one school (sidebar note, 8-18).
- ◆ Additional guidance on annual limits for transfer and other students (sidebar notes, 8-22).
- ◆ Remedial work and grade level (sidebar note, 8-23).
- ◆ Additional loan amounts for dependent students when parents can’t get PLUS (sidebar notes, 8-24).
- ◆ Expanded discussion of Stafford limits for graduate and professional students (8-24 and 8-25).
- ◆ Loan limits for dependent students who previously borrowed as independent (sidebar note, 8-30).
- ◆ Loan limits for health professions borrowers who transfer to unrelated programs (8-36).
- ◆ Electronic notification for the borrower confirmation of subsequent loan disbursements (8-39).
- ◆ Expanded discussion of retroactive disbursements for payment periods already completed (8-63).
- ◆ Note on effect on Stafford eligibility of withdrawal from modular program (sidebar, 8-66).