

Direct Loans 101

Spring 2017 NCASFAA Conference

April 9-12, 2017

Holiday Inn Resort
Wrightsville Beach, NC



Direct Loans 101

The William D. Ford
Federal Direct Loan Program...

“Direct Loans 101”

Direct Loans 101

Direct Loan Eligibility

- Your student **MUST** be an eligible student as described in 34 CFR part 668.32 (Student Assistance General Provisions) and meet **ALL** eligibility criteria
- Your borrower **MUST** be an eligible borrower as described in 34 CFR part 685.200
- Your student must have completed a Free Application for Federal Student Aid (FAFSA)
 - ✓ You have received and reviewed his or her Institutional Student Information Record (ISIR)
- Your borrower is subject to annual and aggregate loan limits
 - ✓ The Academic Year is the period of time used to track Direct Loan annual loan limits

Direct Loans 101

Direct Loan “Types”

- Direct Subsidized Loan
 - ✓ Undergraduate students ONLY
 - ✓ Subject to “Subsidized Usage Limit” (SULA)
 - ✓ The U.S. Department of Education pays accruing interest on a Direct Subsidized Loan
 - While enrolled in at least a half-time status
 - During your 6-month “Grace Period” after you leave school
 - During a period of “deferment” (a period of repayment postponement)
 - ✓ Subject to Annual and Aggregate loan limits
 - Annual loan limit dependent on Grade Level
 - Aggregate loan limit \$23,000 Undergraduate
 - ✓ A factor in your Cohort Default Rate (CDR) calculation

Direct Loans 101

Direct Loan “Types”

- Direct Unsubsidized Loan
 - ✓ **NO** interest subsidy
 - Your borrower is responsible for accruing interest
 - ✓ Undergraduate and Graduate/Professional students
 - ✓ Students do not have to demonstrate financial need
 - ✓ Can replace Expected Family Contribution (EFC)
 - ✓ Has annual and aggregate loan limits
 - Undergraduate annual loan limit dependent on Grade Level
 - Graduate annual loan limit \$20,500 each/all years
 - Undergraduate aggregate loan limit \$57,500
 - Graduate loan limit \$138,500
 - ✓ A factor in your CDR calculation

Direct Loans 101

Direct Loan “Types”

- Direct Unsubsidized Loan funds vs. **Additional** Direct Unsubsidized Loan funds
 - ✓ For loan periods that included, or began on or after, July 1, 2008, an Undergraduate Dependent Student whose Parent is **able** to borrow a Direct PLUS Loan became eligible for \$2,000 in Direct Unsubsidized Loan funds each academic year
 - ✓ An Undergraduate Dependent Student whose Parent is **unable** to borrow a Direct PLUS Loan is eligible for **Additional** Direct Unsubsidized Loan funds each academic year

Direct Loans 101

Keep this in mind...

- A Dependent Undergraduate Student can be eligible for Independent Student Annual and Aggregate Loan Limits...
 - ✓ When his or her Parent is ineligible to borrow a Direct PLUS Loan
 - 34 CFR 685.203(c)(iii) for Direct Unsubsidized Loan eligibility for a Dependent Student
 - ✓ Eligibility stands for that particular Academic Year
 - ✓ Does NOT change his or her Dependency status

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Keep this in mind...

- A Dependent Undergraduate Student can be eligible for an Unsubsidized Direct Loan if his Parent declines to provide financial support to him or her
 - ✓ He or she must have completed a FAFSA and must be otherwise an eligible Student
 - ✓ He or she is eligible for ONLY an Unsubsidized Direct Loan equal to his or her combined base amount relative to his or her Grade Level
 - \$5,500 for a Grade Level 1 Undergraduate Student
 - ✓ You need a signed statement from his or her Parent
 - Or documentation from a “Third Party” if Parents refuse to provide a statement

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Combined Annual “Base” Limits

Grade Level	Dependent Undergraduate	Independent Undergraduate (Dependent Undergraduate - No PLUS Loan)
0, 1	\$5,500 (Maximum \$3,500 Direct Subsidized Loan Funds)	\$9,500 (Maximum \$3,500 Direct Subsidized Loan Funds)
2	\$6,500 (Maximum \$4,500 Direct Subsidized Loan Funds)	\$10,500 (Maximum \$4,500 Direct Subsidized Loan Funds)
3, 4, 5	\$7,500 (Maximum \$5,500 Direct Subsidized Loan Funds)	\$12,500 (Maximum \$5,500 Direct Subsidized Loan Funds)

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Graduate/Professional Student Annual Limit

Grade Level	Graduate/Professional Student	Health Professions (HPPA)
6, 7	\$20,500 (Each Academic Year)	\$47,167 (Each Academic Year)

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Aggregate Loan Limits

Dependent Undergraduate	\$31,000 combined Direct Subsidized/Unsubsidized Loans (No more than \$23,000 in Direct Subsidized Loan Funds)
Independent Undergraduate	\$57,500 combined Direct Subsidized/Unsubsidized Loans (No more than \$23,000 in Direct Subsidized Loan Funds)
Graduate/Professional Student	\$138,500 combined Direct Subsidized/Unsubsidized Loans (No more than \$65,500 in Direct Subsidized Loan Funds)

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Direct Loan “Types”

- Direct PLUS Loan
 - ✓ **NO** interest subsidy
 - Your borrower is responsible for accruing interest
 - ✓ Graduate/Professional Students and Parent of a dependent student
 - ✓ Parent borrower **MUST** be the biological/adoptive Parent
 - ✓ Loan amount cannot exceed the Cost of Attendance (COA) – Estimated Financial Assistance (EFA)
 - ✓ May replace EFC

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Direct Loan “Types”

- Direct PLUS Loan
 - ✓ Does not have annual/aggregate limit
 - ✓ Borrower must not have an adverse credit history
 - 34 CFR 685.200 Direct PLUS Loan adverse credit description
 - You must have consent from the Direct PLUS Loan borrower to conduct a credit check
 - If declined to adverse credit history **MUST** complete PLUS Counseling prior to disbursement
 - ✓ Must offer a Graduate/Professional Student a Direct Unsubsidized loan before awarding a Direct PLUS Loan
 - ✓ **Not** used in your CDR calculation

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Direct Loan Origination Fee

- Assessed at the Disbursement level
- Dependent on the Budget Control Act of 2011 (Sequestration Law)
 - ✓ Can change each Fiscal Year (FY) the Sequestration Law remains in effect
 - Up to 10 years from enactment
- FY 2017 Direct Loan Origination Fee assessed on a Direct Loan with an Earliest Disbursement Date (EDD) on or after October 1, 2016 and before October 1, 2017...
 - ✓ 1.069% on a Direct Subsidized/Unsubsidized Loan
 - ✓ 4.276% on a Direct PLUS Loan

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Direct Loan Interest Rates *

- Direct Subsidized/Unsubsidized Loans first disbursed to undergraduate borrowers on or after July 1, 2016 and before July 1, 2017
✓3.76%
 - Direct Unsubsidized Loans first disbursed to Graduate/Professional Student borrowers on or after July 1, 2016 and before July 1, 2017
✓5.31%
 - Direct PLUS Loans first disbursed on or after July 1, 2016 and before July 1, 2017
✓6.31%
- *Rate is “fixed” for the life of the loan

Award Calculations



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Keep in mind...

- You determine his or her eligibility
 - ✓ 34 CFR 668 Subpart C – Student Eligibility
- Award a Direct Subsidized Loan before awarding a Direct Unsubsidized Loan if appropriate
- Offer a Direct Unsubsidized Loan to a Graduate/Professional Student before a Direct PLUS Loan
- Annual and aggregate loan limits
 - ✓ Your borrower may **NOT** be eligible to borrow a full loan limit due to other packaged aid

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Awarding a Direct Subsidized Loan

- Remember....this is a “*need-based*” award

Cost of Attendance (COA)

- Expected Family Contribution (EFC)
- Pell Grant
- Estimated Financial Assistance (EFA)

Direct Subsidized Loan Eligibility*

*Up to the Direct Subsidized Loan Annual Loan Limit for his or her Grade Level

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Awarding a Direct Unsubsidized Loan

- Remember....this is ***NOT*** a “***need-based***” award

Cost of Attendance (COA)

- Expected Family Contribution (EFC)
- Pell Grant
- Estimated Financial Assistance (EFA)

Direct Unsubsidized Loan Eligibility*

*Up to the Direct Unsubsidized Loan Annual Loan Limit for his or her Grade Level

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Awarding a Graduate/Professional Student Direct Unsubsidized Loan

- Remember....this is ***NOT*** a “***need-based***” award and ***may replace the EFC***

Cost of Attendance (COA)

- Expected Family Contribution (EFC)
 - Estimated Financial Assistance (EFA)
-

Direct Unsubsidized Loan Eligibility*

*Up to the Direct Unsubsidized Loan Annual Loan Limit for his or her Grade Level

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Awarding a Direct PLUS Loan

- Remember....this is ***NOT*** a “***need-based***” award and ***may replace the EFC***

Cost of Attendance (COA)

- Estimated Financial Assistance (EFA)

Direct PLUS Loan Eligibility*

*Up to the COA...no Direct PLUS Loan Annual or Aggregate Loan Limit

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Awarding a Grade Level 1 Dependent Student

\$25,134 COA

- \$0 EFC
 - \$5,818 Pell Grant
 - \$7,200 EFA (Scholarship)
-

\$12,116 Remaining Need

- \$3,500 Direct Subsidized Loan
- \$2,000 Direct Unsubsidized Loan
- \$6,616 Direct PLUS Loan

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Loan Proration

- A loan amount must be “prorated” when the student is enrolled in a Program that is shorter than a full Academic year
 - ✓ Or the student is enrolled in a remaining period of study shorter than a full academic year
- Proration is NOT required for...
 - ✓ Direct PLUS Loans
 - ✓ Graduate Student Loans
 - ✓ Teacher Certification Programs
 - ✓ Preparatory coursework

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Originating a Direct Loan Award



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Origination

- Origination takes place in your school software
 - ✓ Your software will assign a Direct Loan Award ID
 - ✓ xxxxxxxxxS17xxxxxx001
- Origination data is transmitted to the Common Origination & Disbursement System (COD) for editing
 - ✓ MUST include substantially equal actual/pending disbursements equal to the loan amount
 - ✓ You cannot “frontload” a Direct Loan Award origination
- You can originate prior to the borrower completing other required tasks
 - ✓ No particular “order of processing”

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Origination

- You ***MUST*** report ***ALL*** required origination data to COD on ***EVERY*** Direct Loan Award including Subsidized Usage Limit Applies (SULA) data on ***EVERY*** Direct Loan Award
 - ✓ Demographic data
 - ✓ CPS Transaction Number
 - ✓ Loan amount
 - ✓ Disbursement data
 - ✓ SULA data
 - COD is the “traffic cop” that enforces SULA limits

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Origination

- Refer to the COD Technical Reference for complete information on what minimum data ***MUST*** be reported on a Direct Loan Origination Record (LOR)

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SULA – Important Data To Report



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Origination – Academic Year

- Accurate reporting of your Academic Year Begin/End dates and Award Begin/End dates (Loan Period) is VITAL to the accurate calculation of a Subsidized Usage Period (SUP) for SULA purposes
 - ✓ The Academic Year is the period of time used to track Direct Loan annual loan limits Loan
 - Always keep in mind that the Direct Loan annual loan limit is the maximum amount a borrower can receive in an Academic Year
 - ✓ The Loan Period is the period of enrollment for which the award is intended to cover

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Origination - Academic Year

- Your Academic Year is a fixed period of time that usually corresponds to your school's "official" academic calendar
- Your Academic Year is the period of enrollment used to measure the amount of course work a student is scheduled to complete
 - ✓ Your school defines an Academic Year for ***EACH*** eligible Title IV Program of study offered at your institution
 - It can vary from Program to Program
 - ✓ The Academic Year must meet minimum requirements as defined in the General Provisions Regulations
 - 34 CFR 668.3

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Origination - Academic Year

- Your Academic Year is school defined
 - ✓ Minimum of 30-weeks of instruction and 24 semester (36 quarter) credit hours for a credit-hour based program
 - No hour minimum for a graduate level program
 - ✓ Minimum of 26 weeks and 900 clock-hours of instruction for a program measured in clock-hours
 - ✓ Edit Code #046 will trigger when submitted Academic Year Start/End dates DO NOT equal at least 26 weeks

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Origination - Scheduled Academic Year

- Generally begins and ends at the same time each year
 - ✓ Example: Fall/Spring or Fall/Winter/Spring
 - Summer may be either a “trailing” or “header” term
 - Summer is NOT counted in the SAY unless you know the student will attend or it is a required term
 - ✓ Must meet minimum requirements as defined in the General Provisions Regulations 34 CFR 668.3
 - ✓ A school using a Scheduled Academic Year may also use a Borrower Based Academic Year

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Origination - Borrower Based Academic Year

- Does ***NOT*** have “fixed” Start/End dates
 - ✓ Floats with the student’s attendance and progression
 - ✓ Example: Fall/Spring or Spring/Summer or Summer/Fall
 - ✓ A student may return to a Scheduled Academic Year if appropriate

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Origination – Academic Year vs Grade Level Progression

- Completion of credits determines Grade Level Progression
 - ✓ Do not confuse Grade Level Progression with eligibility for a new Annual Loan Limit
 - A student may complete the Academic Year without successfully completing the required number of credits
- Grade Level progression during a Loan Period provides eligibility for higher loan amount
 - ✓ Increase the loan amount and add a disbursement as appropriate
 - ✓ New loan if your software won't allow the increase

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Origination - Loan Period

- A Loan Period is the period of enrollment for which the loan funds are intended to cover
 - ✓ A Loan Period is made up of Payment Periods
 - For a term-based, credit-hour Program the “term” is the Payment Period
 - For clock-hour and non-term Programs the Payment Period is based on course work and weeks completed
 - ❖ No more than two (2) Payment Periods in the lesser of the Program, the Academic Year, or the remainder of the Program
 - ✓ A Payment Period is the period of time for which it’s disbursement is intended to cover
 - ✓ A Loan Period should include **ONLY** Payment Periods in which Direct Loan funds were **received AND retained**

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Origination – Single Term Loan

- A Loan Period of just one Semester, Trimester, or Quarter
- You **MUST** use the COA, EFC and EFA for ONLY that one term to calculate the loan
- Multiple disbursements are required **UNLESS** your school is exempt based on a low cohort default rate
 - ✓ Less than 15% CDR for each of the last three calculated years

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Subsidized Usage Limit Applies (SULA) or 150% – Other Important Data To Report



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SULA – Other Important Data To Report

- Published Program Length
 - ✓ The Maximum Eligibility Period for SULA is 150% of the PPL of the longest educational program in which the borrower is enrolled
 - ✓ Report ONLY one PPL element per award
 - ✓ Reported in the same element as described in your catalog
 - Academic Years
 - Months
 - Weeks
 - ✓ Report in the same format to NSLDS

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SULA – Other Important Data To Report

- Enrollment Status
 - ✓ Used as the pro-ration factor in the SULA calculation
 - Full-time
 - Three-quarter time
 - Half-time

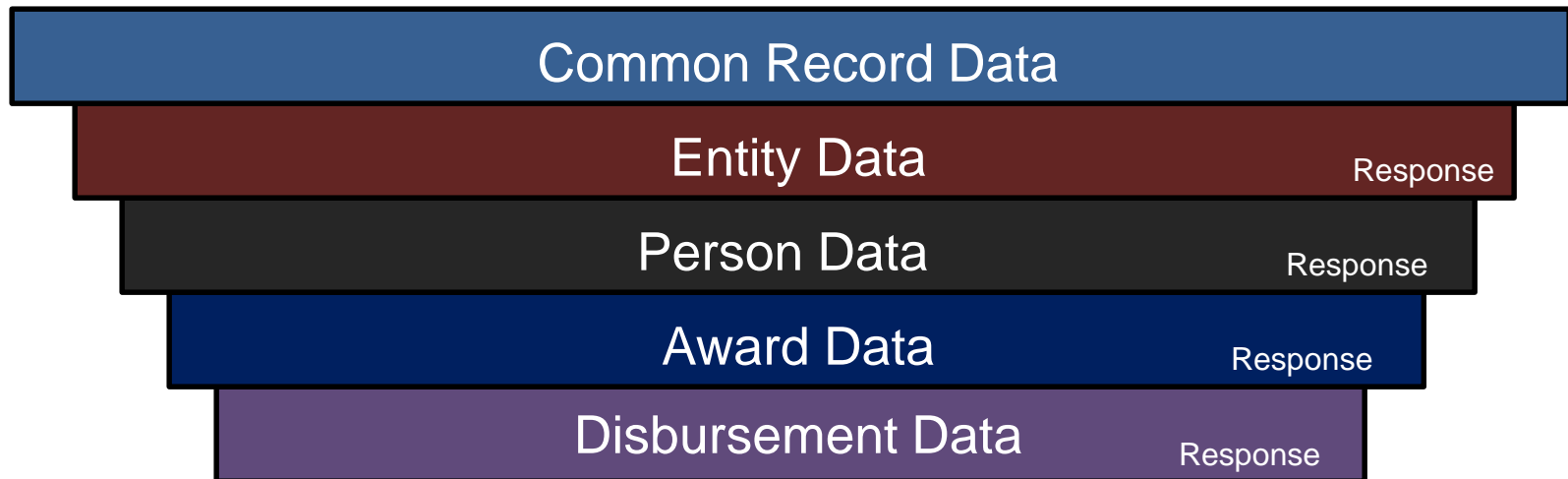
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What Does COD Do With Your Data



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COD processes your submitted data (Common Record) against COD System and Direct Loan Program edits



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COD returns a Common Record Response

- Data that passes edits is accepted and held for further processing
 - ✓ Rejected data is stored as are associated reject reasons
 - ✓ Rejected data is stored for corrective action to be taken by the school
- 100% XML Schema Validation
- BATCH INTEGRITY
- Results of data “run” through COD and Program edits
 - ✓ Warning edits
 - ✓ Reject edits
 - ✓ Correcting edit

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COD edits

- A warning edit is a “heads-up”
 - ✓ Data is accepted and processed by COD
- A reject edit causes the data to be returned to the school for correction
 - ✓ The reject reason(s) and reject code are returned
- A correction edit (COD Reject Edit Code #219) occurs when the loan amount exceeds the disbursement amount
 - ✓ COD returns the new amount

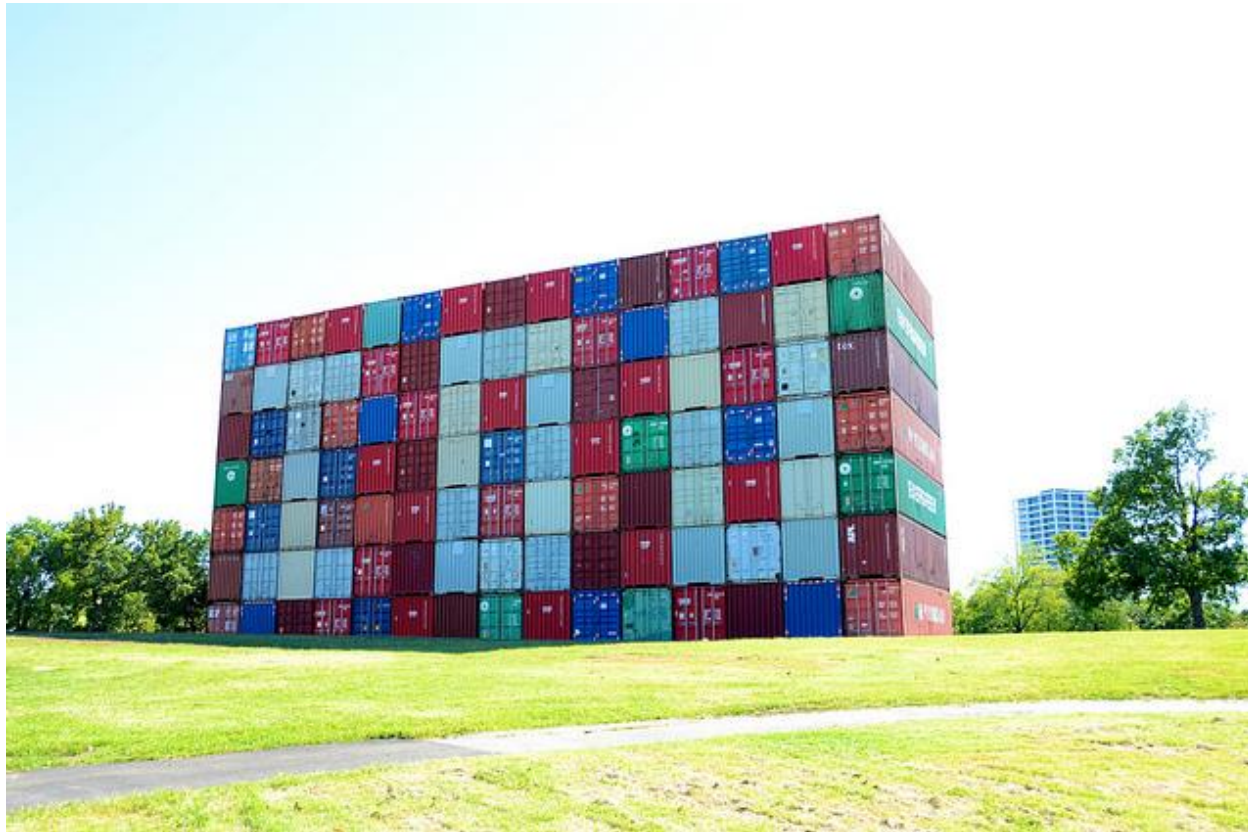
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COD Disclosure Statement

- COD generates and sends to the borrower a Disclosure Statement A warning edit is a “heads-up”
 - ✓ Data is accepted and processed by COD
- A reject edit causes the data to be returned to the school for correction
 - ✓ The reject reason(s) and reject code are returned
- A correction edit (COD Reject Edit Code #219) occurs when the loan amount exceeds the disbursement amount
 - ✓ COD returns the new amount

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Master Promissory Note (MPN)



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Master Promissory Note

- Two versions of the MPN...
 - ✓ A Direct Subsidized/Unsubsidized Loan MPN
 - xxxxxxxxM17xxxxx001
 - ✓ A Direct PLUS Loan Master Promissory Note
 - xxxxxxxxN17xxxxx001
- ✓ Master Promissory Notes are valid for 10 years from the date of receipt at COD
 - ✓ Expires one (1) year from receipt at COD if no actual disbursement takes place in the first 12 months

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Master Promissory Note - “Multi-Year Feature”

- Schools taking advantage of the “Multi-Year Feature” (MYF) of an MPN can link multiple loans to an MPN
 - ✓ Across multiple award years and multiple schools
 - ✓ Loans “link” on the borrower Social Security Number, Date of Birth, and the first two characters of his or her first name
 - Direct Parent PLUS Loans link on the same key identifiers for both the student and the Parent

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Master Promissory Note - “Single-Year Feature”

- Schools taking advantage of the “Single-Year Feature” (SYF) of an MPN must require a borrower to complete a new MPN each Academic Year
 - ✓ Loans from that school “link” to the MPN on the Social Security Number, Date of Birth, and first two characters of the first name of the borrower

AND

- ✓ The start/end dates of the Academic Year

AND

- ✓ The Direct Loan School Code in the Direct Loan ID

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Master Promissory Note – “Single-Year” MPN

- The MPN linked to an endorsed Direct PLUS Loan (Parent or Graduate/Professional Student) is called a “Single-Year MPN”
 - ✓ A “Single-Year MPN” is flagged “Inactive” and no subsequent Direct PLUS Loans can be linked to it
 - **ALL** active MPNs for this borrower on the COD database are also flagged “Inactive”

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Counseling



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Entrance Counseling

- Required for a first-year, first-time borrower
- Required for a first-time Graduate/Professional Student Direct PLUS Loan borrower
 - ✓ NOT required for Parent Direct PLUS Loan borrowers
- Can be conducted via an interactive online website or by the school
 - ✓ If done via StudentLoans.gov COD will send the school a system-generated response
 - If done via StudentLoans.gov the borrower can forward confirmation of completion to multiple schools
- You **CANNOT** require **ADDITIONAL** sessions of Entrance Counseling as a condition for disbursement

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Exit Counseling

- A school must ensure that exit counseling is conducted shortly before the student borrower ceases at least half-time study at the school
- The exit counseling must be in person, by audiovisual presentation, or by interactive electronic means
 - ✓ If done via StudentLoans.gov COD will send the school a system-generated response
- You must ensure an individual with expertise in the title IV programs is reasonably available shortly after the counseling to answer the student borrower's questions

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Disbursement



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Disbursement

- A “Disbursement” is a defined concept
- ***A disbursement of title IV, HEA program funds occurs on the date that the institution credits the student's ledger account or pays the student or parent directly with...***
 - ✓ Funds received from the Secretary
 - OR**
 - ✓ Institutional funds used in advance of receiving title IV, HEA program funds

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Disbursements

- Pending vs. Actual Disbursements
 - ✓ A Pending disbursement is “anticipated” to take place at a future date
 - ✓ A Pending disbursement is part of the origination data
 - ✓ A Pending disbursement has **NO** impact on funding
 - ✓ The Disbursement Release Indicator (DRI) = FALSE
 - ✓ You need **NOT** make adjustments to a Pending disbursement until you are ready to disburse it

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Disbursements

- Actual Disbursements “drive” funding
 - ✓ The DRI = TRUE
 - ✓ Disbursement # and Sequence # is generated for each Actual disbursement that takes place
 - Actual disbursement #1, sequence #1, must start the disbursement process on a Direct Loan
 - ✓ Actual disbursement data can be reported up to 7 days in advance
 - **MUST** be reported to COD within 15 days of the disbursement taking place
 - ✓ You **MUST** report the actual date and accurate amount of an Actual disbursement

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A “Booked” Loan

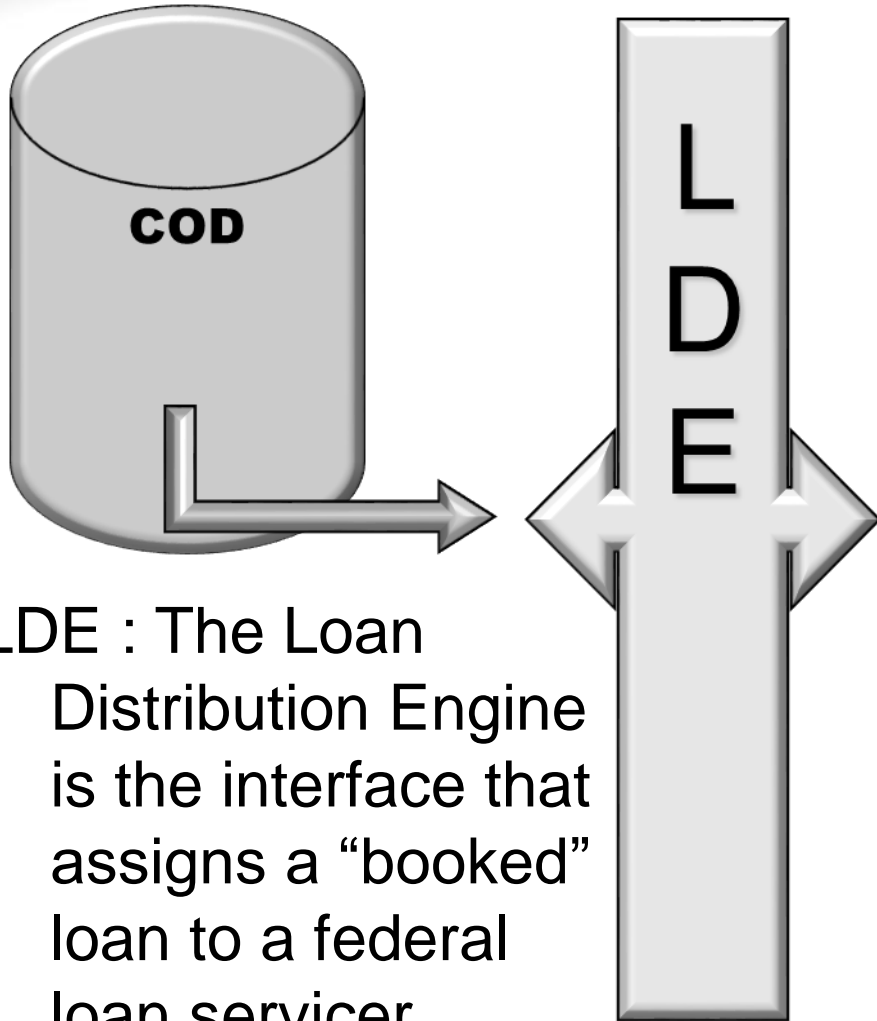


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“Booking” A Loan

- An accepted LOR, a linked MPN, and an actual disbursement constitutes a “Booked” loan
 - ✓ The loan processes through COD’s Loan Distribution Engine (LDE)
 - ✓ The LDE assigns the loan to a Servicer
- Liability for any drawn funds “migrates” from the school to the U.S. Department of Education

Direct Loans 101



Servicers

MOHELA

Granite State
GSMR

Navient

Great Lakes

FedLoan
Svcg

NelNet

OSLA
Servicing

VSAC
Federal
Loans

CornerStone

HESC/
Edfinancial

LDE : The Loan Distribution Engine is the interface that assigns a “booked” loan to a federal loan servicer

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Repayment



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Repayment Plans

- Standard
 - ✓ Fixed payment for 10 years
- Graduated
 - ✓ Payments start “low” and increase every two (2) years
- Extended
 - ✓ Minimum loan balance of more than \$30,000
 - ✓ Fixed or graduated payments for 25 years

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Repayment Plans

- Income Driven Repayment Plans
 - ✓ Payments based on your income and family size
 - Revised Pay As You Earn
 - Pay As You Earn
 - Income contingent
 - Income Based
- Direct Consolidation Loan
 - ✓ Combines eligible loans and results in one payment instead of multiple payments

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Repayment Plans

- Deferment and forbearance options are available
 - ✓ Deferment is a postponement of payment on a loan that is allowed under certain conditions and during which interest does not accrue on Direct Subsidized Loans, Subsidized Federal Stafford Loans, and Federal Perkins Loans
 - ✓ Forbearance is a period during which your monthly loan payments are temporarily suspended or reduced
 - Your lender may grant a forbearance if the borrower is willing but unable to make loan payments due to certain types of financial hardships
 - During forbearance, principal payments are postponed but interest continues to accrue

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