

Direct Loans
*A new way to Process,
Not the Monster
Lurking under your desk*



Craig D. Rorie, Training Officer
Federal Student Aid
U.S. Department of Education




Direct Loan & FFEL

Some things are the same

- ❖ Virtually ALL Title IV regulations
- ❖ Cash management regulations
- ❖ NSLDS reporting
- ❖ R2T4 regulations
 - ✓ Caveat - Direct Loans does not deal in pennies...\$.50 plus roundup, \$.49 or less round down
 - ✓ Returned funds go via G5 - no lender!
- ❖ Origination/Certification

1




Direct Loan & FFEL

Some things are the same

- ❖ Loan types
- ❖ Interest rates*
- ❖ Repayment plans**
- ❖ Counseling - Entrance & Exit required
- ❖ Promissory Note
 - * FFELP PLUS 8.5%...D/L PLUS 7.9%
 - ** Income Contingent/Alternative Repayment Plan unique to D/L

2




Direct Loan & FFEL

Some things are different

- ❖ Loan benefits unique to D/L
 - ✓ Public Service Repayment benefit
 - ✓ No Accrual of Interest Benefit for Active Duty Service Members
- ❖ Actual disbursement
 - ✓ Origination fee/rebate
- ❖ Funding/Cash
- ❖ Additional locations to a main campus
- ❖ Reconciliation
 - ✓ Program requirement

3




Direct Loan & FFEL

Some things are different

- ❖ Single Lender for borrowers
- ❖ Funds obtained from a single source
- ❖ Processing commonality
- ❖ One reporting system/database (COD)
- ❖ One reporting vehicle - Common Record (CR)

4



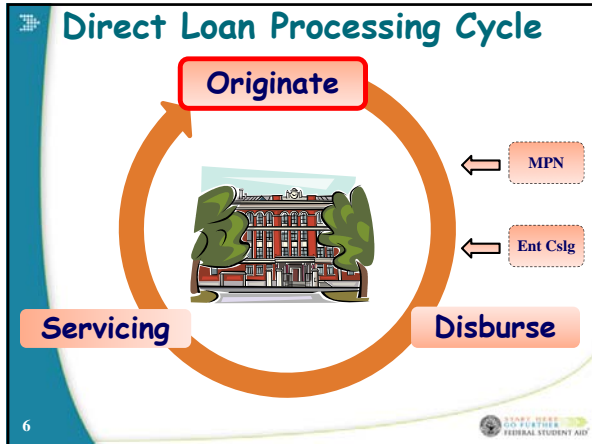
Direct Loan - What You Need To Know

Keep this in mind

- ❖ Schools control
 - ✓ Origination & Disbursement
 - Dates
 - Adjustments
 - Reduction to \$0
 - ✓ Promissory notes
 - ✓ Options

5





- ### FFEL
- FFELP certification
- ❖ School determines eligibility and awards
 - ✓ Transmits loan data to Lender
 - ✓ Anticipated Disbursement data
 - ✓ Disbursement Roster
 - ✓ Anticipated date rolls around check is cut and sent
 - ✓ Bank controlled activity
- 7


- ### Direct Loan
- Direct Loan Origination
- ❖ School determines eligibility
 - ✓ Virtually same process as FFELP and Grants
 - ✓ Same eligibility criteria
 - ❖ School calculates award
 - ✓ Remember same loan types, amounts, and annual/aggregate limits
 - ❖ School creates or "originates" the award in it's resident system
 - ✓ Originate is an event
 - ✓ Create date is the date of origination
- 8

Direct Loan

Direct Loan Origination

- ❖ School transmits Loan Origination Record (LOR) to COD
 - ✓ Anticipated Disbursement data = loan amount
 - ✓ LOR is transmitted to COD via a "Common Record" or "Document"
 - ✓ Document must be formatted in appropriate schema
- ❖ COD sends a receipt
 - ✓ Customer Service Representative (CSR) will email/call for malformed document

9




Direct Loan

Direct Loan Origination

- ❖ Data is sent in "blocks" of information
- ❖ Each block is reusable in the document
 - ✓ Multiple schools, borrowers, awards, disbursements, etc
- ❖ Data accepted or rejected
 - ✓ Hard reject
 - ✓ Warning reject

10




Direct Loan

Direct Loan Origination

- ❖ Can be done via batch (Common Record)
 - ❖ COD sends a common record response to each submitted document
- ❖ Online individually
 - ✓ All data entered field by field
 - ✓ Creates loan ID
 - ✓ Web generated response option

11




Direct Loan - PLUS

PLUS loan requires credit check

- ❖ School process
 - ✓ Written authorization required
 - ✓ Online via COD website
 - Instant response
 - ✓ Loan Origination Record (LOR)
 - ✓ Result returned on CR response
 - ✓ Loan can be accepted and built but credit reject...edit code #036

12




Direct Loan - PLUS

PLUS loan requires credit check

- ❖ Credit decision "stands" for 90 days on COD website
 - ✓ Denial linked to academic year submitted
 - ✓ Approval linked to submitted loan
- ❖ FFELP denial for same period of enrollment can offer Unsubsidized funds to now D/L borrower*

* School option

13




Direct Loan - PLUS

Direct Loan PLUS Credit


- ❖ Direct Loan credit check looks for adverse credit **NOT** credit worthiness
- ❖ Adverse credit defined in **34CFR 685.200**
 - ✓ Doesn't look at FICO score
 - ✓ Doesn't look at income to debt ratio
 - ✓ Doesn't look at loan amount
- ❖ Absence of credit is not evidence of adverse credit
- ❖ Borrower Options when adverse credit is the result
 - ✓ Endorser
 - ✓ Appeal
 - ✓ Decline to pursue PLUS loan
 - ✓ Not sure

14




Direct Loan - MPNS (Master Promissory Notes)
All MPNs have a 10-year "life"

- ❖ Paper and electronic
- ❖ Status returned on response file
 - ✓ Expiration date
 - ✓ "A" accepted/linked
 - ✓ "R" no MPN on file
 - ✓ "P" pending MPN
 - ✓ "C" closed MPN

24 

Direct Loan - MPNs


- Multi-year functionality
- Single-year functionality
- Single loan MPN
- School selected option
 - ❖ COD school options screen
 - ❖ Set participation flag

25 

Direct Loan - MPNs

Multi-year functionality

- ❖ Can link to any "active" MPN
- ❖ Links to "active" MPN with latest expiration date
- ❖ Link on DOB, SSN, and first two characters of first name


26 

Direct Loan - MPNs

Single-year functionality

- ❖ ONLY to MPN from that school
- ❖ New MPN each academic year
- ❖ Links on DOB, SSN, first two characters of first name, identical academic year start/end date
- ❖ Same Direct Loan School Code

27




Direct Loan - MPNs

Electronic Master Promissory Note (eMPN)

- ❖ Borrower driven
- ❖ Fast and accurate
- ❖ Viewable/retrievable/printable
- ❖ Instant data to COD from StudentLoans.gov

28




Direct Loan - MPNs

Paper MPN

- ❖ COD can print
 - ✓ Send to borrower
 - ✓ Send to school
- ❖ School can print
 - ✓ Must mail to processing center
 - ✓ Must print manifest
 - ✓ Responsible for note


29



COD and MPNs

- ▶ COD will reject actual disbursement without accepted/linked MPN
 - ❖ Paper or electronic
 - ❖ MPN ID
 - ❖ xxxxxxxxM11Gxxxx001
 - ❖ xxxxxxxxN11Gxxxx001

30



MPNs - StudentLoans.gov



31




Direct Loan - Entrance Counseling

Entrance counseling required for first-year, first-time borrower

- ❖ FFELP counseling will stand for D/L*
- ❖ Doesn't have to be ED website/materials
- ❖ MUST appropriate to loan type/program
- ❖ SCHOOL determines if counseling is valid or not

* Same loan type

32



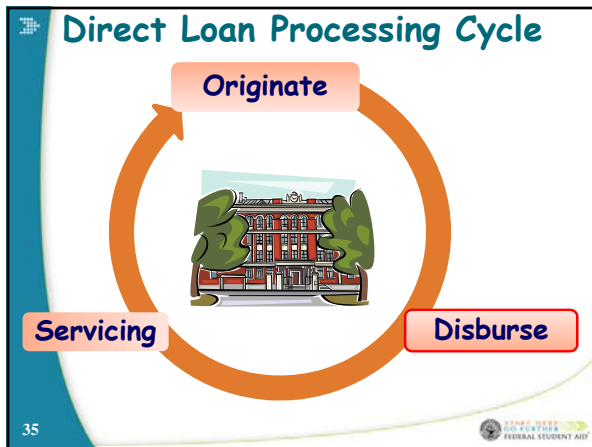
2010 NYSFAAA Conference
Direct Loan

Entrance Counseling - StudentLoans.gov

The screenshot shows the StudentLoans.gov website. The 'Manage My Direct Loan' section is active, and 'Entrance Counseling' is highlighted with a red box. Other options include 'View My Loan Documents', 'Sign Master Promissory Note', and 'Endorse PLUS Loan'. The 'Tools and Resources' section includes links for 'Apply for FIM', 'FAFSA', 'Exit Counseling', 'Direct Loan Consolidation', and 'My Financial Aid History'. The 'Managing Repayment' section includes links for 'Repaying Your Loans', 'Repayment Plans & Calculators', 'Trouble Making Payments?', 'Loan Discharge', and 'Teacher Loan Forgiveness'.

Counseling - COD

The screenshot shows the COD system interface. A search box is visible with a red box around it. Below the search box, there are fields for 'Start Date', 'End Date', and 'Reporting Year'. At the bottom of the search results area, a red box highlights the 'Export Results to .csv Format' button with a red arrow pointing to it.




Disbursement

Pending vs. Actual Disbursement

- ❖ Pending disbursement and date is "anticipated" future disbursement and date
 - ✓ Part of LOR
 - ✓ No impact on funding
 - ✓ Disbursement Release Indicator = FALSE
- ❖ No need to change until ready to disburse

36




Disbursement

Pending vs. Actual Disbursement

- ❖ Actual disbursement drives funding
 - ✓ Report to COD via Common Record
 - ✓ Report ACTUAL DATE OF DISBURSEMENT AND AMOUNT
 - ✓ MUST be reported within 30 days of event*

* *Regulatory Requirement*

37




Funding

Advanced Funded Schools

- ❖ Current Funding Level (CFL)
 - ✓ Corresponding available balance in G5
- ❖ Calculate immediate need
- ❖ Draw funds from G5
 - ✓ Award ID P268K11xxxx
 - ✓ Net amount
 - ✓ NOT student specific
- ❖ Flexibility to avoid excess cash

38



Booked Loan???

Booked" Loan

- ❖ Binding obligation between borrower and ED
- ❖ Liability for funds with ED
- ❖ Accepted Origination record, MPN and 1st Disbursement

39

Direct Loan Processing Cycle

40

Exit Counseling

Exit counseling required when no longer attending or drop below half- time

- ❖ Doesn't have to be ED website/materials
- ❖ MUST be appropriate to loan type/program
- ❖ SCHOOL determines if counseling is valid or not
- ❖ NSLDS NewsLetter #26

41

Exit Counseling

FSA exit counseling now resides at NSLDS.ed.gov

- ❖ Student access to NSLDS data
- ❖ Student PIN for access
- ❖ NSLDS will reflect current loan data
- ❖ Repayment calculators
- ❖ Link to loan holder

➤ Available in both English and Spanish

42

Exit Counseling on NSLDS

Introduces students to the NSLDS Web Site

- ❖ Uses student's actual data
- ❖ Completion tracked on NSLDS database
- ❖ School Reports will be available
 - ✓ To review who has completed
 - ✓ To use for audits


43

Direct Loan Processing Cycle

44


Reconciliation

A General Definition
The process by which records from one system are compared to records from another, and any discrepancies are identified and resolved. **Example:** *Balancing a checkbook*




Direct Loan Reconciliation - Definition
The process by which the Direct Loan Cash Balance recorded on the Department of Education system is reviewed and compared with a school's internal records on a monthly basis. The school must:

- identify and resolve discrepancies, and
- document reasons for their Ending Cash Balance



45



Direct Loan Reconciliation

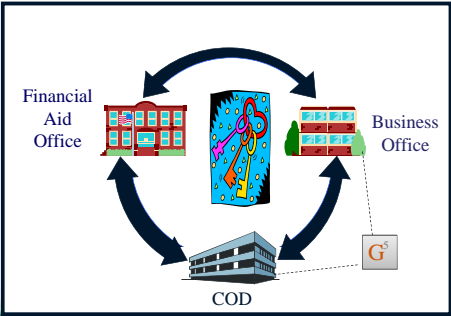
Monthly requirement

- ❖ Know where differences are and document them
- ❖ Take actions to resolve as necessary


46



Direct Loan Reconciliation - 3 Key Players



47



2010 NYSFAAA Conference
Direct Loan


Direct Loan Program Year Closeout (PYCO)

The process by which schools complete final processing at the end of a Direct Loan award year.


- ❖ Extension of the monthly reconciliation process
- ❖ \$0 Ending Cash Balance
- ❖ \$0 Unsubstantiated Cash
- ❖ \$0 Unbooked Disbursements
(DL funds received = DL funds disbursed)

❖ Final deadline: The last processing day in July of the year following the end of the award year. Usually July 31st of the year following end of the award year. ((7/29/2011 for 2009-2010 - last processing day in July 2011.)

Note: 30 Day reporting requirement supersedes both Reconciliation and Closeout requirements



48




Tools and Resources

- ❖ School Account Statement
- ❖ COD Website
- ❖ G5
- ❖ DL Tools
- ❖ Student Files
- ❖ Financial Aid Office Reports
- ❖ Business Office Reports
- ❖ COD Customer Service
 - ✓ Customer Service Representative
 - ✓ Weekly monitoring e-mails
 - ✓ Reconciliation Team - COD Reconciliation Specialists




49




School Account Statement

➤ Generated on 1st weekend of the month

- ❖ Contains data through end of previous month
- ❖ Separate School Account Statement for each open award year
- ❖ Different report format options




50



School Account Statement - (SAS)

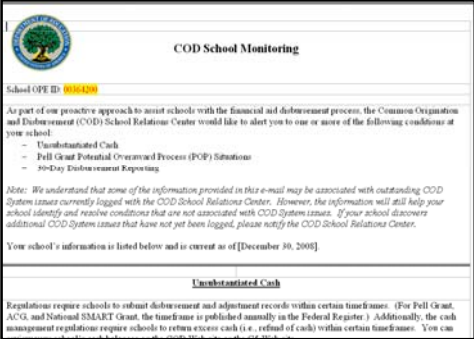
- Five Primary SAS Components
 - ❖ Cash Summary
 - ❖ Disbursement Summary by Loan Type
 - ❖ Cash Detail
 - ❖ Loan Detail - Loan Level
 - ❖ Loan Detail - Disbursement Level



51

GO FURTHER
FEDERAL STUDENT AID

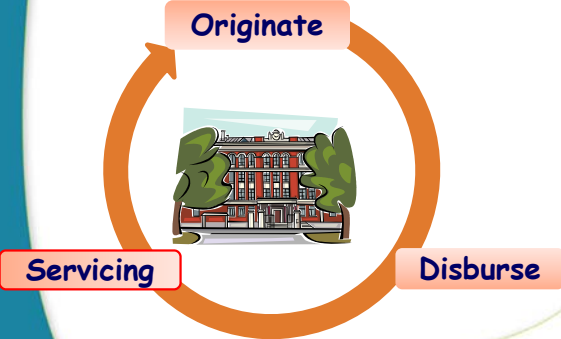
School Monitoring Email



52

GO FURTHER
FEDERAL STUDENT AID

Direct Loan Processing Cycle



53


GO FURTHER
FEDERAL STUDENT AID

Federal Loan Servicers

As of July 2010, the Department has five federal loan servicers to which are assigned new Direct Loans. The federal loan servicers are:


- ❖ Direct Loan Servicing Center (ACS)
- ❖ Great Lakes Educational Loan Services, Inc.
- ❖ Nelnet
- ❖ FedLoan Servicing (PHEAA)
- ❖ Sallie Mae

Will "service" borrowers only - no origination responsibility


54 

Federal Loan Servicers

- ❖ Servicers comply with legislative regulatory requirements and provide unique services.
- ❖ Educate and inform borrowers as to the tools and options available to assist them in the management of their student loans
- ❖ Offer multiple repayment options tailored to borrower preferences (i.e. Online payments, ACH, check, etc.)
- ❖ Provide self-service tools for borrowers and options for receiving bills and/or correspondence electronically
- ❖ Offer dedicated services to schools to help manage cohort default rates

55 

Federal Loan Servicers


What does this mean for schools? 

Do schools need to work with multiple servicers? → Yes

Can a school choose a servicer? → No


Where do schools find servicer assignment? → NSLDS

Can schools provide feedback on servicer performance? → Yes - Quarterly customer satisfaction surveys

56 

Split Servicing 

- ❖ All of a borrower's federally-owned loans will be maintained by a single servicer.
- ❖ Federally-owned and commercial loans may still be split among servicers.
- ❖ Consolidation sometimes viable option, but not in all circumstances.


57 

NSLDS - Source of Centralized Loan Information

NSLDS

- ❖ Includes Commercial, PUT, DL loans and servicer assignments
- ❖ Updates information if federally-owned loans reassigned to make borrower "whole" or if commercial loans change ownership/servicing


New: Centralized delinquency report available

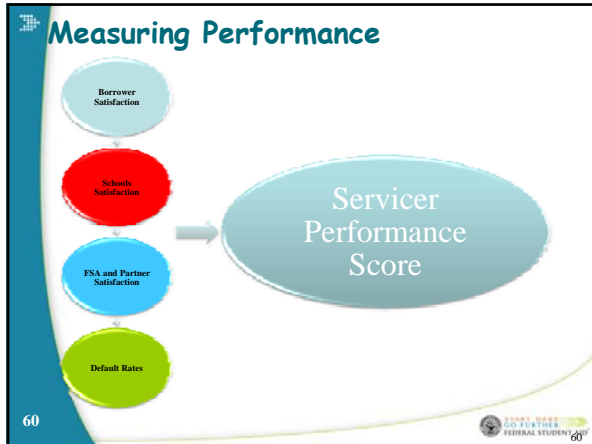
58 

NSLDS - Source of Centralized Loan Information

NSLDS Delinquency Report


- ❖ Provides delinquency information by school for the four additional servicers
- ❖ Includes PUT and Direct Loans held by the four additional servicers
- ❖ Provides various data filters
- ❖ Available on NSLDS Professional Access Web site
<http://ifap.ed.gov/nsldsmaterials/attachments/NSLDSNewsletter27.pdf>

59 



If survey provider calls...

- ❖ Please respond
- ❖ Survey takes 10 minutes or less
- ❖ School only asked about one servicer
- ❖ Base responses only on servicing of PUT and Direct Loan
- ❖ Forward call to colleague at school if your work does not involve federal loans




61

GO FURTHER FEDERAL STUDENT AID

Federal Loan Servicers - Borrowers

Borrower Services

- ❖ Date due flexibility for all repayment plans
- ❖ Electronic billing/correspondence
- ❖ EDA and on-line payment options
- ❖ Self-Service tools for borrowers



62

GO FURTHER FEDERAL STUDENT AID



2010 NYSFAAA Conference
Direct Loan

Federal Loan Servicers - Default & Delinquency

Default/Delinquency Management

- ❖ Dedicated services to assist schools with Cohort Default Rate
- ❖ Exceeds minimum regulatory due diligence requirements
- ❖ Educates and informs borrowers as to the tools and options available to assist them in the management of their student loans
- ❖ Provides outbound targeted calling campaigns along with inbound call center representatives to help borrowers become current
- ❖ Utilizes electronic communication methods such as email to keep borrowers informed about account status

63





Federal Loan Servicers - Default & Delinquency

Default/Delinquency Management


- ❖ Default management results published
- ❖ Servicers will partner with financial literacy advocacy groups to educate borrowers and assist schools
- ❖ Each servicer is encouraged to continually improve and compete among one another to deliver the best results for borrowers, schools, and FSA

64



Questions and Comments

Questions about Content:
Craig Rorie, Training Officer
U.S. Department of Education
Federal Student Aid
215-656-5916
craig.rorie@ed.gov



Feedback about Training
Thomas Threlkeld, Supervisor of Training Officers
U.S. Department of Education
Federal Student Aid
617-289-0144
thomas.threlkeld@ed.gov

65

