



[HAGINS:] First of all, let's go over the agenda. Today we are going to provide you an overview of the direct loan program, but first we will feature an overview of our current environment, some Direct Loan basic information, as well as the roles and responsibilities of you, the schools, and Federal Student Aid. Then we're going to be giving an overview of Direct Loan processing as well as Direct Loan servicing. But to start us off, Pam Moran of the Office of Postsecondary Education, is going to cover some recent events that have brought us here. Pam?

[MORAN:] Thank you, Virginia. I'm not part of the primer. I'm sort of part of the context. And what I'll be doing is perhaps illuminating a little bit through graphic representation what we're seeing and what Bill Taggart this morning talked about and Secretary Duncan also mentioned. The title of this slide is What a Difference a Year Makes, and this is graphic representation of what has resulted from the volatility in the student loan marketplace because of the volatility in the credit markets. You notice that 2007-2008, which is a year in which most of the FFEL-generated or -originated loans were held by FFEL lenders at 79% and then you had Direct Loan directly through the department at 19 with the department owning or holding as the legal holder only 2% of the overall portfolio nationally of the number of loans made in 2007-2008. Flashing forward to 2008-2009 where we experienced the recession and the credit crunch in the marketplace, thus affecting the ability of FFEL lenders to generate capital in the ways that they generally had, through securitizations where they sold securities to investors, bond issuances, or where they simply could not go out to the capital markets and secure capital at a reasonable cost, in those cases they simply did not make the loans. So now, for 2008-2009, and this is the closing of the first year for which we have full statistics coming out of the ECASLA legislation that allowed us immediate authority to purchase loans out of the FFEL market to provide liquidity, now see that we own a large number, 56%, of the FFEL-originated loans, 26% of our own direct loans, and that adds up to 82% of the overall student loan national portfolio, with 18% still residing with FFEL lenders.

And just look at the data [ inaudible ] 2008-2009 are complete years we have data for, and you'll see the number of schools over the course of into 2009-2010, which is a partial year, to be added to the folder updated. As the year goes forward you'll see a migration of total school participation to an increase, significant increase in the Direct Loan Program for various reasons. The loan data has shifted, of course, to Direct Loan with the volume, 2008-2009 being a complete year, we're now up to 5,412,766 loans in DL, 15,229,602 in FFEL, and then you see the respective dollars.

Because of the ECASLA program, the specific authority where we can purchase loans from a FFEL lender to provide them liquidity to continue to make loans under the FFEL program, you'll see that the total FFEL loans made and sold to ED, almost the entire amount of loans made in the 2008-2009 academic year had been actually sold to the department under the ECASLA Put program so that this 76.1%, the dollars representing 75.6%, can again, to underscore what you saw in the pie in the first slide, for all of the student loans made for 2008-2009, we indirectly funded most of those loans, and we now hold 82.4% of those loans totalling 81.8% of the overall dollars that went out or



were originated in federal student loans. And I think, just to underscore, we don't have an act of legislation at the current time that would require all loans to be originated through the Direct Loan Program. If we do have budget reconciliation, that would be effective July 1, 2010. We don't have that legislation yet. There is some draft legislation that was introduced on the House side to potentially extend ECASLA another year, but with a reliable source of funding through the Direct Loan Program, we think that perhaps is unlikely; but again, the Congress discloses, we can't prespeak what might happen legislatively. Even if we don't have a budget reconciliation act -- and this was pointed out by the Secretary this morning. Even if we don't have a budget reconciliation act that requires total Direct Loan origination on July 1, 2010, if there is no extension to ECASLA and capital being funded to FFEL lenders through those mechanisms to allow them to make FFEL loans, effectively Direct Loan will be the only reliable source. So you may still have the authority to originate loans under FFEL if there is no legislation, but you may not have an FFEL lender that can raise capital or is continuing to participate in the program. So this is the context, it's sort of where we are. Putting aside whatever your philosophical views, pro and con, are about the pending legislation, this is the reality; and I spent years in a financial aid office, and our motto was always be prepared for all contingencies and learn to dance fast.

[SPEAKER:] Thank you, Pam. Okay. The William D. Ford Federal Direct Loan Program, you often hear it more commonly referred to as Direct Loan Program or just Direct Loan, and we're going to be using those 2 more common terms throughout this presentation. So let's talk a little bit about roles and responsibilities. Now, with the Direct Loan Program, the roles and responsibilities for schools are in many ways similar to what they are in the FFEL program. Under Direct Loan, the schools work with the students to determine their eligibility, and instead of certifying a loan and waiting on approval from the lender, the school submits an origination record to the Common Origination and Disbursement System, or COD, and waits for a response back from COD. Now, the school must have a system in place that allows them to send and receive student data to and from Federal Student Aid. Schools are also responsible for the receiving and delivering of the loan funds in accordance with the cash management procedures as are set forth in 34 CFR 668. And finally, schools must actually account for their funds received from the G5 system by submitting actual disbursement records to COD as well as doing reconciliation and program year closeout that we'll be talking about just a little bit later.

Now, Federal Student Aid supports the schools in any number of ways. Direct Loan schools interface primarily with the COD System and Direct Loan servicing. Federal Student Aid manages the Direct Loan Program and the department assists schools that are new into the program with the crisis in funding reconciliation, and they also provide most of the written guidance to schools regarding the Direct Loan Program. Additionally, FSA is the one who determines school eligibility to participate in Direct Loan Program. Federal Student Aid facilitates all funding through G5 to get for schools and helps resolve funding issues; and since we are responsible for running the program, we require of you a full accounting of funds through reconciliation and program year closeout.



Federal Student Aid will serve as the lender of the Direct Loan funds, so in turn, we handle all aspects of the program including operational, system, as well as support to borrowers. This means we are responsible for their credit checks, credit appeals, endorsers, maintaining your student accounts, processing payments, deferments, forbearances, and the like. We also provide web-based services: online repayment calculators, online servicing, and should students have any questions pertaining to their borrower status, we also offer them customer service through a customer service line that they can receive in their quarterly statements.

You may have seen this chart before, so we're just reminding you again of the annual loan limits that we now have. Keep in mind the same loan types exist in both FFEL and Direct Loan Programs, and I'm not going to go into these individually, but it's subsidized, unsubsidized, PLUS, as well as consolidation. Same loan programs. The annual and aggregate loan limits for Direct Loan and FFEL are the same. We felt it was important to give you a quick reference to hang on to this because it's something that you could use on an everyday basis, just a reminder of the annual limits that we have now. Another reminder is on the interest rates. Because of recent legislation, a fixed rate for direct subsidized loans for undergraduate students will be progressively reduced as you can see in this chart through the 2011-2012 financial aid year. It is also indicated on here any other direct subsidized and unsubsidized loans are set at a fixed rate of 6.8% and direct PLUS for parents and grad students, 7.9, and consolidation has the weighted average 8.25% cap.

In addition to the interest, an origination fee is charged to the borrower. For both subsidized and unsubsidized loans first disbursed on or after July 1, 2009, or before July 1, 2010, the origination fee is 1.5%. There is an upfront rebate of 1%. So for example, let's say a borrower is going to receive a disbursement of \$1,000. She is charged the initial 1.5% origination fee, then she is given a one-time upfront 1% rebate equaling \$10, thus resulting in an overall reduction of \$5 from the \$1,000 disbursed. Now, she gets to keep this upfront rebate as long as she makes her first 12 payments on time. Otherwise it's going to be added back into her loan balance. And the origination fee and rebate is going to remain the same beginning with the 2010-11 award year with the 1% fee and the 5% rebate.

Direct loan borrowers have a number of tools and benefits available to them to help them manage their Direct Loan repayments like FFEL loan deferments and forbearances available to borrowers who meet that particular criteria. Two unique programs and benefits in the Direct Loan Program are the public service loan forgiveness and no accrual of interest benefit for active-duty service members. To be eligible for the public forgiveness program, (1) the borrower's employment in a public service job must be full time; (2) the 120 payments, which do not need to be consecutive, by the way, must be made when the borrower is employed full time. That means if they are not employed full time during that time period, then those payments will not go towards that 120 payments. And (3) the payments must be made under certain repayment plans. FFEL loans that are consolidated into direct consolidation



loans may apply for this benefit. As for the no accrual of interest benefit for active-duty service members, this is for loans disbursed on or after October 1, 2008. They are not charged interest on the loans for up to 60 months. The borrower must have served in an area of hostilities that qualifies for special pay and must be on active duty or be performing qualifying National Guard service during war or other military operation or national emergency.

Now, some of the repayment options. Direct loan borrowers have several repayment options that they can choose from, one being the standard repayment that pays the loan off over 10 years with a minimum monthly payment of \$50. It is the least expensive repayment option. Then we have the extended fixed/extended graduated repayment that pays the loan off in 25 years or less in either fixed or graduated payment amounts. The graduated repayment plan pays the loan off in 10 years with small payments in the beginning that increase every 2 years. The income-contingent repayment plan, or ICR, establishes a monthly payment amount based on the borrower's income as well as their family size and is adjusted annually. The income-based repayment plan, or the IBR, is the new repayment plan that's available to student Direct Loan borrowers who demonstrate a partial financial hardship.

I'm going to clean up one thing on this slide that's slipped through quite a few sessions so far. Do you see down at the bottom where it says GAPS? Pretend that says G5.

Okay. Throughout the Direct Loan processing cycle, as you can see, COD is center stage. It is our Common Origination and Disbursement System. It is a web-based system whereby schools and Federal Student Aid use to transact business of processing, storing, and reconciling school financial records. COD is student-specific award, disbursement, and MPN data are all maintained in COD. The schools, you, supply the data. Federal Student Aid via COD monitors disbursement reporting in relation to the money that's been received by the school and the school supplies student-specific data and disbursement data to COD. Most commonly, this is done using a common record transmission or document that contains multiple awards, multiple disbursements for one or multiple students. It may even contain data for multiple schools. The common record transmissions can be thought of as a batch, and that's how you'll see it within COD. All documents submitted via batch processing must be submitted through the Student Aid Internet Gateway, or SAIG, which is the store and forward communications system. You, the school, transmit your data through the SAIG mailbox, which in turn sends it to COD. This goes back and forth with your Direct Loan data. COD sweeps the mailbox every 15 minutes, pulling data in to process as well as putting data back in to send back to the school. You can also go directly online to the COD web site and do your transactions there, where they are almost realtime, closer than 15 minutes. You can enter all the student data there and the COD is actually designed to accommodate record submissions on a record-by-record basis or one record at a time. You can submit multiple individual records and the results are evident almost instantaneously.

And now I am going to pass this on to Sarah to talk to you about the origination process.



[UTZ:] Good afternoon. We're going to take a look at the Direct Loan processing cycle. As you can see in the slide, the first thing that we're going to be just talking about is the origination. And as we have said before, origination in Direct Loan is very similar to certifying in full. That is, you're telling us that the student is eligible to receive the money. And on the origination record, you must include the loan amount approved and disbursements totaling the loan amount. We have 2 different types of disbursements that we talk about in Direct Loan. One is the anticipated disbursement, which is the ones that is basically your scheduled amounts, when you expect to disburse, and how much you think you're going to disburse for each disbursement. And then we have actual disbursements, which is what you report after you've actually disbursed to the student. And the origination record can contain both a combination of things that you've already disbursed and things that you are going to disburse in the future, or it can be all anticipated. You can mix it up. It depends on your process and how you do it on your campus. Some schools actually disburse and send everything at once. So if you had a student come in who needed the money right away, you could go ahead and do the disbursement and origination at the same time as long as they had a promissory note on file, and you can find that on COD as well, whether they have the promissory note or not.

Okay. Let's go on to the next. Again, origination. When you think of origination, think of it as certification, and you'll be submitting this information on what we call a loan origination record, which is just the common record that includes the personal information, the loan information, and disbursement information for the loan. Origination records can be submitted well in advance of the disbursement date if you wish, and we need you to make sure that the record has been accepted and there aren't any edits that come back. When you send in a record, you're going to get a response. First you're going to get a receipt, and the receipt just tells you that we received the record and we were able to read it and at least start the process. And then you get a response which tells you whether the record has been accepted or rejected and if there's a problem with the record, it gives you the reason that it was rejected, and then you can fix it and send it back in. And we've got edit codes and so forth. The technical reference and other materials tell you what those edit codes mean for each of the records. And when you send in the origination record, we will also tell you whether or not we have a promissory note on file for that student or not, and we also send back information on the promissory note such as the expiration date of the promissory note. And one of the things we wanted to remind everybody of is even with FFEL, the 2 years is almost up for those that have been around for a while, so promissory notes are going to start expiring in the very near future; so keep that in mind if you've got a student who's been around for a while.

Let's talk a little bit about credit check. COD completes the credit check upon receipt of the origination record for a PLUS loan, and the credit check is really the only difference between processing a PLUS loan versus a subsidized or an unsubsidized loan as far as the steps in the process. The promissory note has the permission on it, so if the student or parent has already signed a promissory note, then they've already given permission



to actually do the credit check, so you can send in the origination at that point. We also have a supplementary form that's available on the Direct Loan COD web site that schools can use to get permission from parents who haven't actually signed the promissory note. It's just a little paragraph saying I give you permission to do a credit check. And a lot of schools use that when they do an online credit check with us. The COD web site has a place on it that allows schools to go online and do a credit check on one record at a time, one person at a time. We pay for the credit check, so there's no cost to the schools, and we send the results to both the school and to the borrower. If the borrower fails the credit check, we send a letter to the borrower telling them what their options are and what they need to do, and we include an endorser addendum in case they want to get an endorser. We also give them information about how to appeal the credit decision if they want to do that, and we also ask them that they let the school know what they're planning to do, whether they're going to receive a loan or not, so that you know whether or not to award the additional unsubsidized loan for a dependent student.

Once a credit decision has been completed, if it's accepted and it's good, then it's good for 90 days. So if you do a credit check online and you haven't sent an origination record, you want to get that origination record in within 90 days of having done that credit check. Otherwise it expires, and we'll do another credit check on that person and it may or may not pass. So as long as you've gotten your origination record in and it's been accepted by the system, then you can use that for the life of the loan. But just remember that. That's important. They have several options if they do fail the credit check, which I said before. They can not pursue it, they can appeal it, or they can get an endorser. And that's all done through our Common Origination and Disbursement Center borrower services line. So if they need help with any of that, they can call that number and someone there can help them with that process.

If they want to get an endorser, COD mails an endorser addendum to the borrower so that they can go and get somebody to fill that out. And basically the endorser is promising to pay the loan if the student doesn't or the parent defaults on the loan. The disbursements can really be up to the amount, whichever is lower, the endorser amount, which is how much the endorser is willing to promise to repay, or the loan amount approved, whichever is lower. And the MPN that is used for that loan can only be used for that one loan. So if they had a loan before and they had an MPN linked to that loan, they're going to need to complete a new MPN in order to get the loan, because the MPN for a failed credit check with an endorser can only be used once. So it becomes a one-loan MPN basically. And they'll need an additional MPN anytime they get a new loan in the future as well. Of course, the MPNs are tied to both the borrower and the student for a PLUS loan, so if they have multiple students, they're going to need multiple MPNs.

In March 2010 we have developed an exciting new web site for Direct Loan. It's supposed to include a PLUS application. We're actually, I think, going to call it a supplementary form or something like that, because we couldn't call it an application. But in this presentation I'm calling it an application because that's essentially what it is,



where a parent or a student, if it's a grad student, can go online and tell us how much money they want to borrow, and then all that information that they fill out on there will be sent to the school. You guys will be able to opt in or out of that process. If you want to use your own process to collect the data that you need for PLUS, you can do that, or you can use this new online feature that we're bringing up in March. The other thing that we'll have -- again let me remind you they'll be able to do a credit check online when they complete the application, so they'll know instantly whether or not they passed the credit check. But again, if they pass, that's only good for 90 days. So you guys will need to get your origination record in as soon as you can to make sure that the credit check is still good for that loan. So you have 90 days to do that. We will send you a response, which is a system-generated response, to let you know whether they passed or they didn't; and the borrower will also be able to indicate online whether they wish to pursue the loan or not so that you know whether or not you can do the additional inside. And they will be given the option of actually appealing the credit online, so they can tell us they want to appeal and start that process right there online, and they will also be able to direct their endorsers online so the endorser can complete an online endorser addendum. To find out more about this web site, I recommend that you go to Session 6, which is the What's New, and they're supposed to get into more detail about it there.

The next thing that we are going to be talking about is the promissory note. I've already talked a little bit about it. But some schools just do the promissory note first and some originate first. It all depends on how you want to do your business. Of course, with PLUS you need to get the promissory note in advance before you do the origination so that we have permission to do the credit check. We have multiple ways that you can do MPNs. We've got forms available through FSAPubs for you to order if you want to reprint your own and do a paper that gives you complete control over the promissory note. If you do paper, you'll have to send it in and manifest it in the batches and include a manifest with it so that we can make sure that all of the MPNs that you thought you sent, we actually got; and then we'll send that back to you to confirm that we actually received all the MPNs that you sent to us. We also have electronic MPN that schools can opt to use. We highly recommend that you do that. It's a lot less work for you and it's faster and it gives the responses back to you more quickly as well. On the MPN responses, when we first receive an MPN, it's good for a year, until the first disbursement is actually made on the loan, and then we kick out the expiration date to 10 years so that it's good for 10 years after that. But there has to be a disbursement made within the first year of the receipt of the MPN for it to be good for the 10 years.

The schools must make sure that there is a promissory note on file, and like I say, with the origination record, when you send that in, we will tell you whether or not we have an MPN already there. We also send unsolicited responses to schools to let them know that when a student has gone out to the web and completed an MPN, or when we accept the paper note, we will tell you that we got it and who it's for, and that's based on who they indicated on the MPN, the school that they were attending.



We have multi-year and single-year functionality with the MPN, and that's school specific. It's not actually related to the MPN itself. Our MPNs are multi-year, so if a student signs an MPN at a school that's using the single-year option and they go to another school that's multi-year, they can use that MPN that they signed while they were attending the single-year school. However, if you're using single year, then that means every academic year you're going to have to get a new MPN for that borrower. I would recommend that you guys use multi year. It's a whole lot easier and it's a better option, it really is. There are other ways of controlling what happens better than doing it through the MPN process, I believe. But there are options that you can use to fit your needs, whatever that is.

The electronic MPN is at [www.dlenote.ed.gov](http://www.dlenote.ed.gov). Well, I'll get there in a minute. With electronic MPN, it's available 24/7, so the student can go out and complete it any time. It's paperless. It's more accurate because we actually get the name and basic identifiers for the MPN from the PIN site when they log in so that we pull it over so that there's not as much chance of mistyping in the name. Actually they can't change it. We take it from the PIN site, and if they need to change their name or social security number, they have to go to the PIN and change it there.

There are 3 options available to schools on the MPN site. You can choose whether or not you want your students to complete electronic MPN or not, whether you want to do paper completely. You can require that there be a loan origination record on file before the person can actually complete the MPN if you want to do it that way. And you can actually add a school-specific message. You go onto the COD web site and enter in a school-specific message that you want to go to all your students when they complete the MPN giving them instructions on whatever it is they need to do next. But you need to keep in mind if you use electronic MPN, the student does have the right to complete paper. You can't make them do electronic if they don't want to, or if a parent wants paper, they have the right to ask for that. And we have the CBT online if you want to take a look at it. Because you guys can't actually go in without a PIN and see what it's like, we have a CBT available so that you can play with it and see what the students' experience is.

And back to March 2010. The eMPN is moving to this new Direct Loan web site and it's going to have a new URL. The current URL will redirect the borrower to this new site once we put it up, but the new URL is going to be [directloan.ed.gov](http://directloan.ed.gov). We've used this before for the servicing web site, so if they go out there now and type that in, it's going to redirect you to the servicing web site. But come March we're going to be using it for the new web site.

Let's go back to the paper. As I said before, borrowers have the right to request paper, and you have a lot of options here. You can either provide them a blank form. We have forms available that have the labels on them so someone could fill it out by hand if they needed to. We also have forms available that you can print on, so they're basically blank up at the top and your system will print them out. Or you can request that COD print and mail it to the student or parent. And that's done through the common record if



you want to do that request, or you can go online and request it as well for that person. If the school produces the MPN and the borrowers bring it back to the school, again we will have to do a manifest that lists all the MPN IDs and the names and batch them up into groups of 100 for us to go through and make sure they're all there. We do a quality check to make sure they're complete, and any incomplete MPNs will be mailed back to the school, and we recommend that you send it by some way that you can track it in case they get lost. That happens occasionally. And then our processor actually reviews the MPN for accuracy.

Linked MPNs. When we say that an MPN is linked, it means that we've actually hooked it up with a loan record. So we've got the MPN and we've got the loan record and we know they belong together basically, and we send that information to you. When we receive your origination record, we go out and look, the system goes out and looks to see if there's an MPN already there. When we receive MPNs it goes out and looks to see if there's a loan origination record that needs to be hooked up with the loan. We automatically send you responses for each of the MPNs. It tells you who the borrower is, what the expiration is for the MPN, the status of the MPN, a whole lot of things. And we send these unsolicited responses for unlinked MPNS and linked MPNs when there's a change in expiration date or when there's a change in status. And when I say a change in status, I mean either it's expired or it's closed by the borrower, because the borrower can call and ask that the MPN be closed so you can't use it anymore, or because of discharge due to death. So if a person dies, we will close their MPNs and we won't be able to use them again. But we give you that information in the responses that our system generates, so you need to pull those in regularly so you know what's going on with those loans and with the MPNs. If the MPN is expired and you still have disbursements to make, you can go ahead and make it if it's already been disbursed on before the MPN expired.

An active MPN is one that is available for linking so we can use it to float new loans. It's identified on the web site as active. There's a status indicated online. And we do the linking based on social security number, name, and date of birth, and it's usually the first 2 characters of the first name when we first receive it, although with the new web site we may fill that in. We're actually going to start collecting full name, but that's only on the electronic MPNs. We will be sending you a full name if they completed it electronically starting in March, but right now you're only going to get the first 2 letters of the first name.

And on to entrance and exit counseling. Like FFEL, borrowers have to complete entrance counseling and exit counseling. The rules are basically the same. You can do it in person, we can use audiovisual, which we do have videos available for you, which it's online so you could stream it or you could order the DVD, and we also have online entrance counseling and exit counseling available on the servicing web site. We also have counseling materials available that you can order through FSApubs. We've got a counseling guide for PLUS and we've got a counseling guide for sub/unsub. And we also have regular reports that you can get from the online site that will tell you who's completed the counseling and what counseling they actually have completed. If a



student has completed entrance counseling in FFEL, they do not have to complete a Direct Loan entrance counseling. That counts. They have to do one or the other. They don't have to do both. But exit counseling is a little bit different because we're required to give information on both programs for the exit counseling, estimated repayment amounts and so forth. And again in 2010, we are moving the entrance counseling to our new Direct Loan loan site so we'll have it all in one place, and the students can complete it there. We're going to be sending responses to you telling you who has completed entrance counseling, and you can also go online and pull up the results on the COD web site, so you'll be able to query the results for your school on COD. And we're actually going to be sending reports that are automatically sent to the schools because we're going to be sending you the responses, and you guys can pull it in and update your system as you go.

And I've got up here a little icon at the very bottom right-hand side of the screen that says exit counseling. We're moving exit counseling to the NSLDS web site, and it's going to be both FFEL and Direct Loan. It will look at the data on NSLDS to see what types of loans the student has so that it will give you basic information that goes along with both programs, and then when the programs differ, if they have a mixture of FFEL and Direct Loan, it will talk about those programs. If they have only Direct Loan, it will only talk about Direct Loan. If they have only FFEL loan, it will only talk about FFEL. And the NSLDS will have reports available. I'm not sure whether they're actually going to push them out on any kind of regular schedule or whether -- we've talked about different things, but we will have reports available. Whether you guys have to go out and request them or whether they push them I think is still open for discussion. We're working on it. I'm not sure that we've gotten there yet.

I believe that the next slide is yours.

[SPEAKER:] Thank you. So where are we in the Direct Loan process right now? Our student has filed a FAFSA. You have determined their student eligibility, probably packaging, awarding them with a Direct Loan or any other federal aid they may be eligible for. The student and/or parent has signed a master promissory note, so now we're going to be talking about disbursing. First things first. All schools are required to have an accepted and linked promissory note on the COD system before an actual disbursement will be accepted by COD. Now, the MPN can be accepted before the origination record is done, but the actual disbursement will not accept, the loan will not book until there's an accepted origination record and an accepted and linked promissory note. Remember we need the 3 things for a loan to book: accepted origination, accepted and linked promissory note, and accepted disbursement. That's what books a loan. Disbursements must be reported to COD within 30 days of the disbursement date. This is not only a regulatory requirement of the program, but it's also beneficial to you in keeping your funding records in appropriate manner and managing your school's loan program, because if you don't meet that 30-day deadline, you will end up with unsubstantiated funds, and that's not a very good thing.



You must report to COD the actual disbursement date as well as the disbursement amount when you report your disbursement records. Keep in mind that the actual disbursement date is either the day that you credited Direct Loan funds to a student's account or cut the borrower a check for the funds or paid the borrower using an EFT. Schools also will be receiving a 30-day warning report every month which contains a listing of all the unbooked loans which COD has not received the elements that it needs for booking. You should review that report and investigate any ones that it identifies to make sure you know the reason why it hasn't booked. Sometimes it's just a matter of timing. But it's a very useful report. It is called a warning report because it's just that: It's a warning. But make sure you take a look at it.

As with FFEL, schools are required to notify borrowers of the anticipated date as well as the amount of the disbursement, their right to cancel all or a portion of their loan and have those loan proceeds returned to the lender, and the procedures and time frame in which the borrower must notify the school that they want to cancel or reduce that disbursement. Now, your school must honor the request of the borrower to cancel all or a portion of their loan if the request is received during the following time frames: If you used affirmative confirmation, the latter of the first day of the payment period or 14 days after the school notifies the borrower of their right to cancel. If the school doesn't use affirmative confirmation, within 30 days of the date the school notifies the borrower of their right to cancel. As a reminder, affirmative confirmation is the process where the school actually obtains written confirmation of the type and amount of FSA funds that a student wants for an award year before the school actually credits the student with those funds. One more thing I want to mention on this is when you cancel a loan in COD, you're actually reducing the loan amount and disbursement amounts to zero, so we don't use the term "cancel" very much. You're actually reducing it to zero.

If you're returning Direct Loan funds on the borrower's behalf more than 120 days after the disbursement, you must send the funds to the Direct Loan Servicing Center. You can see the address that's on the screen in front of you. It is sent as a payment on a loan. And if you want more information on how this is done, you want to take a look at DLB-08-02. That's DLB-08-02.

All schools coming into the Direct Loan Program are assigned a current funding level, or a CFL. Your current funding level will be large enough to support your school's loans based on your loan volume from the prior year, and you should never run out of your current funding level because it is driven by the actual disbursements that you send in to COD, and should something ever happen that you feel you need to raise your current funding level for direct loans, you just call your COD customer service rep.

You draw from your funds using G5 as was mentioned before, and this is the system for delivering Title IV funds to you. There is a key difference between drawing down Direct Loan funds and FFEL funds. With FFEL funds, they're intended to be used for the borrower that you request them for, but with Direct Loan funds, they're not borrower specific until you've actually disbursed those funds to a particular student. So for example, if you draw down funds on Monday for Troy's loan to fund his loan on Tuesday



but for some reason Troy's loan is not ready for disbursement on Tuesday but Emily's is, you can actually disburse those funds to Emily. So the funding level is not student specific as it is with FFEL. Keep in mind that cash management does apply to all the Direct Loan Program. Excess cash is any amount of FSA program funds that a school has not disbursed to students or parents by the end of the third day following the day the school received the funds. So that's what we say is you've got to make sure you're able to use those funds within 3 days, but again, you can use it for another student if that student is eligible.

As mentioned before, you receive your initial current funding level. For those schools that were participating in FFEL, the amount is going to be based on FFEL data from the previous year, so you will have a current funding level to start with. Your current funding level can be viewed on both COD as well as G5. Additionally, all schools are assigned to a funding method and all schools coming into Direct Loan will be assigned as advance cash. This means you basically initiate your own drawdowns from G5 by requesting them that way and then reporting the information back.

You should time your submissions for those Direct Loan funds to meet that 3-day disbursement cash management rule I told you about just to make sure that those funds are actually substantiated. G5, as you can see, there is the actual web site URL. You can view your current funding information, you can return cash from this, and you can request payments as well as adjust drawdowns. COD and G5 communicate in order to establish the funding levels that you need to have for your Direct Loan Program.

Now, in regards to contacting G5 regarding your Direct Loan banking information, you only need to contact G5 if you need to add a new bank account or you need to designate which bank account you will be using for direct loans. Otherwise you don't need to contact them. Once you've requested your funds from G5, you're going to be receiving those funds via a payment request to the Federal Reserve System from G5. They're going to wire the funds to your bank account that your school has designated to receive FSA funds, and this will either be done by ACH, Automated Clearinghouse, or FEDwire. Now, remember that your fund status can be tracked on the COD web site as well as on the G5 web site.

There may be several situations where you need to return Direct Loan funds to the G5 payment system, which is electronically, or by means of a check to the COD School Relations Center. Now, the preferred method is electronically by G5, one reason being is that you get a confirmation when you return it electronically. Once you've sent it, it's done, it's covered, you've got that confirmation number. If you return it by check, it's not as easily tracked, and, well, we all know sometimes checks get lost in the mail; right? Any Direct Loan funds that are not disbursed to student or parent borrowers within that 3 business days after they're received from the department, like we've talked about several times now, they must be returned to the department in accordance with the cash management regulations. Funds also must be returned if you have an overpayment of Direct Loan funds. If you have a borrower who wishes to cancel all or part of the loan within that allowable time frame, not to exceed 120 days from the date



of disbursement we just talked about a few slides ago, there are no other borrowers you have to whom those funds can be used, then you will need to return those funds.

When a disbursement is canceled, the funds from the disbursement may be disbursed to another borrower. I'm saying that again just so that you remember that you can do it. And another thing to remember is when you need to, remember to update COD, whether it's a downward adjustment for a student or some other reason.

Schools should return funds either G5, which I have said before is the preferred way, or by mail to the COD School Relations Center. Now, this is for the reasons that I just gave you. Make sure you include a completed Direct Loan Refunds of Cash form, and again, Direct Loan bulletin DLB-08-01 has more information on this. If you are going to be returning the funds electronically, you'll go to the G5 web site, you'll log in, select Refunds to Open Awards, and then you get the electronic refund web site. You can enter your refunds in the blank areas on the screen and from there send it in. So this would be your means of doing it electronically.

And now we're going to move on to reconciliation and Sarah's going to take it away again.

[UTZ:] Well, I've noticed that we're running a little out of time, so I want to make sure that we have enough time for a few questions, so I'm going to try to be brief.

Reconciliation is basically a process by which you make sure that your records and our records match and that you've reported everything that you should have reported and that the money that you have drawn down is accounted for and any discrepancies, if there's something wrong, you've tried to figure out what you need to do to fix it or work with us. We have recon specialists that we have at COD that will help you with this if you need help. We also send a SAS report that's a monthly report that all schools get to help you to match your records with ours and identify where there are differences and discrepancies. You basically just need to document those discrepancies and why they exist, if it's a timing issue or whatever. And you need to keep an audit trail so that you from month to month know what's going on with your reconciliation and make sure that things are resolved the following month. For more information on it -- and I highly recommend that your business office attend the reconciliation sessions as well, because they need to work with you, because it's not only a reconciliation between us and you but it's also between the financial aid office and the business office, to make sure you guys are in sync. There's a session specifically on closeout if you want to go into more detail. We also have what we call PYCO, program year closeout, and basically that's your last time you reconcile for the year. And we want you to be at a zero balance at that point and that way we know that you're done for the year. And you can go online and say that you're done basically, and if you have a zero balance we'll let you do that in COD. That way we turn off the reports for that year. You won't get any more information from us about that year because you're done. And then if you find out you need to do more processing, you can always call us and we can turn it back on again for you at a later time.



Future servicing, there's also a session on that in which we'll go into more detail. But right now ACS is the only servicer we have. They're our servicer contract. But starting next year the additional servicers that are servicing the put loans that they talked about earlier will start taking direct loans as well, and they will get their allocation based on their performance. We're going to be doing surveys and so forth and doing measurements and give the most volume to those that are performing the best. Again, there's a session that specifically talks about that as well that you guys can go to.

And then the tools and resources, the rest of the slides are for your information. You can go out and explore these web sites, and these are the phone numbers that you have for School Relations at COD. There's also a School Relations number for servicing and also for consolidation. We have several publications that you could use to get more information. And then these are web sites where you can get more information for the borrowers. And ds.ed.gov, I kind of think of that as a Direct Loan portal for both students and schools, because it will give you the ability to link to all the other web sites that are related to Direct Loan from there as well, plus we give some basic information on the program and information about publications and so forth that you can order. And these are the borrower call centers, and for additional assistance for any school, of course, we've got [DLenrollment\\_fsa@ed.gov](mailto:DLenrollment_fsa@ed.gov). That's our onboarding team.

And at this point I'd like to open it up for questions. And I'm sorry I've rushed through that last part, but I want to be able to answer questions from you guys. Does anybody have any questions? See, I'm losing the whole audience here. If you'd like to come up to the mic.

[AUDIENCE:] I have 4. The first one was when you talked about the schools and giving them the option to originate the record without the MPN or vice versa and message, is that by school? That's by school. But if you're a branch campus of another school, do you have that flexibility as a branch campus to turn it the way you want it and not ask the main campus?

[UTZ:] I think the MPN -- some of the things I believe you can but other things you can't, and I can't think off the top of my head what they are right now.

[AUDIENCE:] [ inaudible ]

[UTZ:] Right. If they have an e-code, if you're processing separately from the main campus, there are some options, but like I said, I can't remember what they are right now. If you want to come up and give me your information, I can get back to you.

[AUDIENCE:] Okay. The next question is entrance and exit counseling. I'm a grad professional school. I deal with medical students. They are a different type of student. Is there a separate entrance/exit counseling that they're going to go through, through



the DL Program, or is it all for one and one for all? I mean because what you have for undergrad is not going to fit to my students.

[UTZ:] Right. Well, we have a PLUS, a grad PLUS exit counsel -- is it exit or entrance? Entrance counseling for grad PLUS that's separate from the sub/unsub.

[AUDIENCE:] Okay. So since you really don't have anything, can we do our own?

[UTZ:] Yes.

[AUDIENCE:] Or is the DL entrance and exit counseling required?

[UTZ:] Well, you can do your own.

[AUDIENCE:] Okay.

[SPEAKER:] As long as you meet the requirements.

[UTZ:] Right, as long as you meet the regulatory requirements.

[AUDIENCE:] Okay.

[SPEAKER:] [ inaudible ]

[AUDIENCE:] The last question I have is the funding levels. We are currently set up for DL. However, we are not a full participant. Now, on our G5 account, our annual student loan volume is anywhere from \$50 million to \$60 million. If we all had to switch over to DL July 1, 2010, are our G5 levels going to go up to where it's going to cover our volume for the entire year?

[UTZ:] Well, what we do is we allocate a certain percentage up front. So we give a school a CFL of, say, I think 50% of what we expect them to disburse over the year for the first half, and then in January we're supposed to take a look at it again to see whether or not we need to increase the CFL. And if you tell us that you're going full participant, what we're planning to do is we will look at your loan volume from FFEL from last year and give you the additional money based on that.

[AUDIENCE:] All right. So we would have to contact you to tell you that we're going 100%.

[UTZ:] Right. And I think you can contact at this e-mail address and they'll help you.

[AUDIENCE:] Hi. Could you clarify the funding method that you mentioned, advance cash? Is that just for new schools coming into Direct Loan now? Because we're in Direct Loan, this is our second year, and we're push cash.



[UTZ:] Yes. Well. We've changed the policy. We used to allow schools to be push cash, but all the new schools coming in we're going to make advance funded.

[AUDIENCE:] But if you're already in the push cash arena, you don't have to change?

[UTZ:] Not right now. But eventually, probably. Be prepared to change because --

[AUDIENCE:] Is there an estimated time for that, when that will have to be done? We just haven't had any communication as to that change, so that's why I'm wondering.

[UTZ:] Right. Something should be coming out soon about that. And actually, if you go to the funding session, he should be able to tell you because he's the one responsible for doing that.

[AUDIENCE:] Okay. Great. Thank you.

[AUDIENCE:] Hi. I think I have a simple just yes-or-no question. Currently we're in FFEL right now and we're transitioning to DL. Currently our servicer on their site where you can complete the master promissory note, they also check to see if a student has completed entrance counseling as well, and you have the option to set up to have them complete the entrance counseling then if they haven't, and go on to do the MPN. Is there going to be something similar on the DL where they do their MPN online?

[UTZ:] They will be able to do both entrance and the MPN at the same time. We aren't forcing them through anything right now because the schools have the option to either have their students complete it electronically or not, so we didn't want to force them down a path that the school might not want them to take.

[AUDIENCE:] Okay. But will it let them know if they've completed it or not?

[UTZ:] Yes. They will be able to see whether they've completed it or not on --

[AUDIENCE:] When they're doing the MPN?

[UTZ:] Yes.

[AUDIENCE:] Okay. Thank you.