



[LAING:] Let me start by asking you a few questions. How many of you are brand new to Direct Loan? Alrighty. How many of you do not have a bank account set up in G5? Quite a few. How many of you are new financial aid administrators? Okay. How many of you have G5 read access to our financial aid administrators? Is there anyone? How many of you have G5 access? That's good. Every presentation I give, there are more and more people who have G5 access. G5 used to be called GAPS and I am slowly getting the word GAPS out of my vocabulary. Finally, how many of you are business officers? Great. And, how many of you are representing foreign schools? Okay, a few.

This presentation is divided into three pieces. I will be discussing Direct Loan funding using the common origination and disbursement, the COD system. Then I'll touch on a few points dealing with cash management and then I'll discuss G5 and any updates with that. The G5 presentation is fairly comprehensive, showing the different screens and functionalities and the web pages are on the screen, so we are basically just going to touch on what this screen is rather than tell you what the details are on there so you don't have to squint your eyes for those details, but it is important to know what's there.

How do schools get their money or monies. The term "money" is loosely defined by meaning the authority to use cash. For new users, don't be intimidated; it's not that complicated, it's not that hard. These systems are designed to get you the funds when you need them. As Arne Duncan said this morning, there have been 500 new schools join the Direct Loan program within the past few months and very few of those schools had any glitches and when they did, we were able to dissolve them very quickly. Alive with Bill Taggart's vision, it's something I think this session brings about, his vision is to implement the law of the land in the most effective and efficient way possible and I think that is the way our funding and payment system is, it tries to be intuitive and easy to use. This is the how-to-do-it session.

I would like to start in the realm of public administration because I have a masters in public administration. We always like to use iron triangles. There are two iron triangles of funds management. Within the department, you have budget service who gives us our funding, you have FSA that runs COD and then G5 which is our payment system. These are basically iron triangles so if it feels like they are made out of iron, you have to reconcile between those three points of the triangle and they must all work in unity. Each point has its own reports to produce and they must always reconcile with each other in the department. Now, there is another iron triangle and that involves you intimately. The schools have an iron triangle with the department, both COD and G5 for the business office. Now, for most of you, the big player here is the business office because that is who draws down the funds. In the sessions I've given, we have always wanted better coordination between the financial aid office and the business office but it seems like a dream. It all fits under the category of why can't we get along? Whatever you do, try to stay reconciled with them. The numbers must be reconciled between these points and there are some good reconciliation sessions being offered here and if you are not reconciled, you are living in sin as far as the department is concerned.

Under the funding lifecycle, this is basically an award year and what happens is we give you an initial authorization. That is called an initial CFL. All schools coming into the Direct Loan program are assigned a current funding level or CFL. The school's CFL should be large enough to support your loans based on the loan volume from the previous year. Should you ever need to increase your CFL you can contact your customer service representative and we will talk a little bit more about this on some other slides. Schools draw down funds to disburse funds using the G5 system, this is the department system for delivering the Title IV funds. It is important to note that a key difference in drawdowns and loans between Direct Loan and FFEL.



FFEL funds and drawdowns are from a lender and are for a specific borrower. They are intended to be used for the borrower that they are allocated for. Direct Loan funds are not borrower specific until the school disperses the money to a student and the course of disbursement to COD. For example, if you draw down funds on a Monday for borrower A, to fund his loan on Tuesday and for some reason borrower A's loan is not ready for disbursement on Tuesday, but borrower B's loan is, you can use these funds as much or as little as is applicable to disburse borrower B's loan. This allows for greater flexibility in using Direct Loan funds.

We have reconciliation. You are required to do that on a monthly basis and you do get audited for that and we will touch on reconciliation a little bit later. You had an end-of-year reconciliation which basically must be closed out by July 31 of the year after the end of your board year.

This is a brief summary of a funding lifecycle using the 2009/2010 award year. You can see here initial authorization in March 2009. You do your daily processing where you send in your origination records and disbursement records and your master promissory notes. You do your monthly reconciliation, then your closeout is targeted for July 31, 2011 and that is the date where we hope your ending cash balance is 0. For the initial authorization, we do that in early spring with our COD release, a new one comes up and the amount of money that we are giving schools is 60% to 65% of the amount of the disbursement records on file from the previous year. Now, for the new schools, if you have FFEL data that is in the NSLDS, National Student Loan Data System; we are looking at that data. We would give you an initial authorization that is 60% to 65% of the data that is either in COD or in NSLDS. We are also considering doing some analysis, so I am giving you a funding increase in January, basically for second semester. By that time you have used up your initial authorization but we are trying to make this as seamless for you as possible and it is something that we are certainly considering a midyear increase to your initial authorization.

Again, just to summarize what we have been saying, we are giving you the initial authorization, your initial CFL. You draw down cash via the G5 website. You send in your Master Promissory Notes and actual disbursement records to substantiate the cash received and by substantiate, that means when you draw down you send in the disbursement record in COD that verifies the amount of that verifies the amount of that disbursement. Bear in mind that you should be requesting funds to cover the net disbursement amounts that your students will be receiving after the origination fee has been deducted and the interest rate rebate has been added and you must request your Direct Loan funds directly through the G5 payment systems, which we will walk through.

School should time their submission for Direct Loan funds in order to assure that once they have received the funds to be disbursed within the three business days allowed under the Cash Management Regulations.

In COD, with our daily production of disbursement records, we have two deadlines or timelines when we actually do the processing. The first one is at 10:00 a.m. Eastern time. A tip here to take home with you. If you send in your data by 10:00 a.m., that information will be in G5 the same day. Our second we call these "pull and apply" where we literally pull data from the COD web and we apply the financial funding to it and we send it to G5. So, it is at 10:00 a.m. and 10:00 p.m. If you send something in after 10:00 a.m. it will be in G5 the following day, but within 24 hours. We brag about this, that it took us a long time to get to 24-hour processing, but I will throw a little caveat on there that the federal government does have a government end-of-year



shutdown which is quite lengthy for our purposes and we shut down on October 1 for a few days so that the federal government can close its books and that is government wide.

For your disbursement record timing, you send in actual disbursements according to the 7-day rule which is basically you can't send in disbursement records until 7 days in advance of that disbursement date; otherwise, your records will be rejected in COD.

I want to touch on the advanced funding method. All of you are on advanced funding, basically meaning you are getting this initial CFL and once that is used up, then you're going on a system of records first where you have no available balance left. You send in a disbursement record and then your funding gets bumped up. But again, we are considering in early January giving you a funding level increase. If you do need additional funds, you can always call customer service and our staff will give you a manual increase if you are having problems with your systems or whatever, but we are trying to keep the phone calls to a minimum by giving you a funding increase in advance.

This is my farewell to the Pushed-Cash System which is something we thought was going to be the wave of the future where we did not give you an initial authorization where you basically sent in records and then the department pushed cash to your bank account. This was started out as a pilot in Pell and Direct Loan was using it for a while. We are basically down to 120 schools left in Direct Loans that use pushed cash, but the Achilles heel to this processing system is in order for it to work we have to have a negative payment transaction whereby the federal government goes into your bank account and withdraws cash for every negative disbursement record you send in and that is actually illegal and it does not work. The problem is instead of doing that, the systems try to net and there are timing issues with netting a positive and minus. It just does not work. Sometimes it does work for some of these schools, but they don't realize there is staff of the department going behind the scenes to make it work, so there's no way we could continue with this funding method.

For the foreign schools, I think there are a few in here. There are 400 foreign schools that will be new to the Direct Loan program and these are foreign schools that are eligible for FFEL that have American citizens going there. They will be required to have an account in GAPS and we have staff in the PC Lab with the 1199 forms for them to fill out. I think everyone has filled out an 1199 sometime in your life because these are also used for your personal bank accounts. The foreign schools will not get an initial authorization. They will be under our records first funding method and they won't be getting an initial authorization. So I just wanted to touch on that for a minute.

The next piece I want to talk about is the cash management. There are basically three regulations there. The first one is the 30-day report interval whereby if you know of a change to the student's record, you have to report that change whether it be an increase or decrease within 30 days and you are also required to send in a record within 30 days after drawing down cash in G5. Then, for the three-day cash flow, my words of wisdom, if I can call it that, is to quote Franklin Roosevelt and say there is nothing to fear but fear itself. The problem with talking with schools is probably that some schools are just petrified of an excess cash audit finding, but there are tolerances there. Excess cash is not excess until it reaches 1.5% of the total or 3% of the prior year drawdowns during your peak processing. But, if you draw down for one student and they drop out, you can use those funds for other students as long as it is within a relatively narrow time period. With your monthly reconciliation, we have a SAS, a Student Account Summary that we send out to you every month and you are required to do your own



reconciliation. You don't have to report back to the department what your findings are, if you have any, but it is something auditors do look at to see that you perform this task.

Again, you have a monthly reconciliation where you compare your records with the department's, which is in COD and in G5, to identify an account for discrepancies. Your ending cash balance at the end of every month is allowed to be something other than 0. But then at closeout, and again that is July 31 of the year following the end of the award year, so there is plenty of time to get closed out, you should ensure that all records are processed and all cash is accounted for and reconciled and your ending cash balance must equal 0. This ECB, the ending cash balance, is important in that it is total net drawdowns minus total net book disbursements equals your cash balance. The internal control guys always like to see a 0 there at the end and that's what it is supposed to be.

We have several tools to help you, both within COD and in G5, tools for Direct Loan reconciliation, starting with the School Account Statement. I always call that summary, but it is actually School Account Statement and I think in a reconciliation session, staff did go over that in great detail. We have several COD funding web screens which are useful, several COD reports and then the G5 web screens and reports. Now again, you don't really have to look at the details of each field here, but this is one of our more critical web pages in COD. It is the School Funding Information web screen. On there it shows your initial CFL, the current CFL and the available balance. This should match what you see in G5. Another screen that is just as important is the Cash Activity screen. This screen is fed to COD from G5 and it shows your drawdowns, which are your payments, your adjustments, your refunds, the returns and offsets, if there are any. It shows you those amounts by date, so this is a very handy reconciliation tool. The SAS, the School Account Statement is a monthly file sent from the COD system. It contains school data as reflected in the COD system. There are some very important sections of that SAS; Cash Summary, the Disbursement Summary by loan type, the cash detail and the loan disbursement information. Does anybody have any questions about COD processing or cash management before we go into G5? Not; we'll move right along.

G5 has an unusual name. It is named after the 5 goals of the payment system that were all about trying to improve the processing and the performance. It is the department's official payment system. It was formerly known as GAPS. It provides the location for all school funding processes, for drawdowns, drawdown adjustments, refunds and G5 funding reports. This is the G5 home page and I'm sure you can't read everything that is on there, but it is a very intuitive page that you are familiar with on the internet these days. I will caution, we do have one issue with the passwords in G5. Under the "forgot your password" field, you are told that you yourself can reset your password as you can do in a lot of systems throughout the world, throughout the internet these days, but there is a glitch there. You can't reset that password on that web page, the functionality is currently not working. You have to call the GAPS hotline to get your password reset. A bill will be deployed sometime before the end of the month. December 21 is our target date. You will be notified of this change via the News and Events portlet on the G5 homepage.

This is a G5 registration form. That form is in two parts because of federal audit requirements. You can fill out that form on time, but that is only part of it. There is another paper form you have to print out and then you have to have that notarized. In prior years we used to be able to just get somebody to read access here at these conferences and our PC Lab. The best we can do is download the form for you and go have it notarized. There is some other information you need to add to that.



Moving into G5, there is a screen called My Awards. It displays a list of all your institution's awards in G5. It gives a quick snapshot of a recipient's award number, your available balance, your last date to draw and your award status. This is what it looks like. If you're familiar with the GAPS award number, if you have Pell or CAG, or federal work study, one thing that is different about the GAPS award number for Direct Loans, it was something that happened when the program first started. Part of that number is P268K. The award year is like 9/10. G5 uses a trailing award number which would be 10 for the 9/10 year rather than 09 which is what Pell and work study and other programs use. That is something that you have to be very careful about because you might potentially draw down for the wrong year.

How do I request Direct Loan funds? Before I get there, I want to talk about the frequently asked questions. There are basically 12 questions there and they are basically frequently asked. For the new schools, and this is very important, setting up that bank account. If you already have a bank account set up for Pell or one of the campus-based programs and you want to use that for Direct Loan, you don't really have to do anything. Direct Loans will automatically be directed toward that bank account.

If you have several bank accounts, which some schools do for different programs, you need to call the G5 hot line to tell them which bank account you want to use for Direct Loans. If you are a new school, a new grantee to the department with no bank account information or existing grantee or if your existing grantee [inaudible] funds, you go to a new bank account, you need to fill out one of these 1199 forms and have that taken care of. The PC Lab folks will be more than willing to help you get that filled out. These questions on this page are very important, so if you have read access, see what the frequently asked questions are. Again, there are instructions on how to set up the banking. It is located at the G5 website and in the frequently-asked questions section. It takes 2 to 3 days to process the banking once all the documentation is received. And again, it gives help with filling out the 1199A in the G5 PC Lab station.

If you've gotten your documentation together then you can create a payment. It is a very intuitive website called Create Payment. That's the same as a drawdown. You basically create a payment on a payment tab and in that example there is about \$100 that is claimed. Then you come to a Summary tab which asks you for confirmation and you confirm that and then you are sent an automated email with your user name and address and saying how much that you received there. If you're curious as to when those funds are sent to you, after a school has requested funds from G5 they will receive those funds when the department G5 system forwards a payment request to the Federal Reserve System who then wires the funds to the bank account that the school has designated to receive FSA funds.

Most schools are under an Account Clearing House payment request. Those ACH payments, if they are made before 3:00 p.m. Eastern time, they are deposited the next business day. Requests made after 3:00 p.m. are deposited within two business days.

Now, Fedwire payments have a cost to them and that is what most large school systems use. If they are made before 2:00 p.m., not 3:00 p.m., they are deposited the same day. Requests made using Fedwire after 2:00 p.m. are deposited the next business day. Again, Direct Loan funds can be tracked on the COD website on the Cash Activity Balance as well as the G5 website. Individual notification of funding requests will vary depending on the policy of the school's chosen bank.

The next adjustments you can make are adjustments or drawdown adjustments. This is when you've drawn down for the wrong account and you just need to make an adjustment. You can't



move more than has been drawn. Your net adjustment must equal 0. Do not use the adjustments as a substitute for returning excess cash. You can't move these funds someplace else, it just creates a roll in the shortfall. Do not use adjustments to close out a year or bring your school's cash balance to 0. This shows you how to do these adjustments. It is under the Payments menu and it's called Drawdown Adjustments. Very intuitive. You enter the amount of the adjustment and here in this example, this same amount in two different awards. They net each other out. Then you click Continue. Then you click Submit Adjustments. And then you get a confirmation that these adjustments have been completed and you can see them on your external G5 award history report.

The next thing we want to talk about is refunds. We are really pushing schools to use the electronic refund process as opposed to paper checks. I know there are some issues with some large some large state school systems where some of the state treasuries can return cash and they are doing that by paper, but it is something we are actively encouraging and I think in a few years the department will probably mandate that all refunds have to be done electronically. There are advantages to using the electronic refund system. I posts to G5 within two business days. You control the process. If you made a mistake you can see where it is and you can correct it. You direct from which bank account the money is refunded. Multiple refunds from one screen, you can see multiple refunds on one screen and at one time. Most importantly, it reduces the human error and delays on the school's part and on the department's part. Because when you send the paper checks in to the Department they go to basically a lock box in St. Louis, and they're sent in to the Department and if you have the wrong identifier, DUNS number, GAPS award or Award History Report, it takes a while to get that straightened out, if ever. So, please use electronic returns.

Again, this is basically an intuitive feature here when you do your electronic refunds. You basically enter the refund amount next to the award. You confirm the refund and click continue. You select Confirm to process the refund. Then you see that confirmation. Again, it is very intuitive, telling you your user ID the amount and the date and the like.

Then, for the G5 reporting, you do your payment requests which are the drawdowns, their adjustments, refunds, returns and offsets. Returns and offsets are not used, that common usage. A return is something the bank does, not the school. We do have reports that are helpful. The most important one is this external award activity report because it gives you a summary of what all of your adjustments and payments were by dates. Again, you put in the award year that you are looking for and the award number. There is a tip here for this award history report and that is, if you're looking at a particular award year, you have to put a specific start date. Our tip is: always use January 1 for whatever award you're looking at. If you're looking at the 2008/2009 award year, put in January 1, 2008. If you're looking at the 9/10 year, put in January 2009, so on and so forth. That is one take-away we would like you to have but this is an invaluable report in terms of your cash management in G5. It just tells you every transaction you made in an award year. This is another example of what it actually looks like.

Our two most important fund numbers are the COD School Relations Center in Niagra Falls, NY. They can help you with your funding in COD, especially for the new schools. If you need a funding increase, this is who you would call and they send us e-mails asking that a bigger school get a funding increase, or if you have any problems with your system. And I think there are other sessions here dealing with how to participate in COD. Then the G5 Helpdesk. There are some very good people there who can answer your questions about the bank account or any issues that we have set up and as you're getting set up. Both of these systems are very



intuitive and very helpful, so the calls should be at a minimum, but if you're there and you need to, we're there.

That's basically the session today, so you're getting out a little early. They say it's better to be out early than run late, so are there any questions?

The microphones are there in the center.

[AUDIENCE:] Question on schools that are currently pushed cash. You say that will end in 2010/2011?

[LAING:] Yes.

[AUDIENCE:] That is the beginning of the 2010/2011 award year?

[LAING:] Yes. The pushed cash funding mechanism will end starting with the 10/11 award year.

[AUDIENCE:] So, June 30, 2010? Is that what you're saying? Or is it 10/11 funding?

[LAING:] 10/11 funding. Starting with the 10/11 funding in April 2010. If you're on pushed cash, your older years will stay on until you're closed out, like 9/10 and 8/9 and so on. If you want to do anything differently, look prior to this.

[AUDIENCE:] So, will those schools ... I'm a third-party servicer. So will those schools then have to complete G5 registration and set up a direct deposit?

[LAING:] They are already set up. It is just the funds are sent to them and now when they draw down they are using third-party services when they draw down.

[AUDIENCE:] But I do not have access to their accounts in G5. The money is pushed, so I do not go out and request that funding like I do for my advanced funded schools.

[LAING:] See somebody in the G5 Lab to get you set up for that. So the bank account is set up, you just need access to it.

[AUDIENCE:] Right. Thank you.

[AUDIENCE:] I have a question on clarification for a school that is already established with G5 but desires to use a different account number for the Direct Loan that they established under that. Do they have to start with an 1199?

[LAING:] No ma'am. Your question was for a school that already has an established bank account in GAPS and G5, and you want to use [inaudible] for Direct Loan, all you have to do is call the G5 Hotline and tell them which bank account you want your Direct Loan funds to go to.

[AUDIENCE:] Even though that account does not exist yet?

[LAING:] Oh, I thought you said it already existed.



[AUDIENCE:] No.

[LAING:] Yes, you do have to fill out the 1199. Yes, I'm sorry.

[AUDIENCE:] When you were on slide 9 you were talking about net draws. You had mentioned about net drawdowns on Direct Loan. Could you go back to that?

[LAING:] You said slide 9.

[AUDIENCE:] Yeah.

[LAING:] Was that slide 9 in the G5 section.

[AUDIENCE:] No, it was in the first section on Direct Loan. You had additional notes there.

[LAING:] Did you have a question on that or just want ...

[AUDIENCE:] Not on the slide, but you had made some additional comments on the school drawing down net amounts of loans. I'm all new to this, so ...

[LAING:] Right, I'll just reiterate the notes that were on page 9 there?

[AUDIENCE:] Right.

[LAING:] Bear in mind that if you are requesting funds to cover the net disbursement amounts that your students will be receiving, after the origination fee has been deducted and the interest rate and rebate have been added. Is that what you're referring to?

[AUDIENCE:] Yes, thank you. I just didn't hear that all. Right.

[LAING:] And there are some here that are working on in the PC Lab for G5 or CODS, so you can ask us any questions. Thank you for attending and enjoy the rest of the conference.