

# Payment to the Borrower

## CHAPTER 6

*The Department (in Direct Loans) or a lender (in FFEL) provides loan funds to the school for payment to the student or parent borrower. The school is responsible for ensuring that the student is still enrolled at least half time and otherwise eligible at the time of payment. A school may credit loan proceeds to the student's account, pay the student or parent directly, or combine these methods. In 1996, cash management regulations set specific time frames for transfer of funds to the school and payment to the borrower—be sure to review Volume 2, Chapter 5 of this Handbook for a discussion of those disbursement requirements for all SFA programs.*

### THE DISBURSEMENT PROCESS

After receiving the loan funds from the lender (or the Department, in the case of Direct Loans), you will disburse the funds by crediting them to the student's school charges and/or paying the student directly.

A disclosure statement must be provided to the borrower either at or prior to the first disbursement. In the FFEL Program, the disclosure statement is provided by the lender or guarantor. In the Direct Loan Program, the school may choose to send disclosure statements or let the Loan Origination Center (LOC) send them. The disclosure will include information that is specific to the borrower's loan: the type of loan, anticipated disbursement amount(s), anticipated disbursement date(s), and instructions on how to cancel the loan(s). For any subsequent loans provided under an existing MPN, borrowers must also receive a "Plain Language Disclosure (PLD)" developed by the Department.

#### *Checking eligibility at the time of disbursement*

You've already certified that the student is eligible when you sent the loan information to the lender (see Chapter 4, "Starting the Loan Process"). However, you must also ensure that the student has maintained continuous eligibility before you disburse the loan.

The most common change that would make a student ineligible for a disbursement is if the student has dropped below half time, so it is important that your office have a system to check the student's enrollment status at the time of disbursement.

If the student has dropped below half time temporarily, you may still make a first disbursement (and subsequent disbursements) after the student resumes at least half-time enrollment. However, you must make sure that the student continues to qualify for the entire

#### **A Note on Terminology ...**

Traditionally, the FFEL regulations have referred to the lender's "disbursement" of funds to the school, and the school's "delivery of the loan proceeds" to the student. More recently, the Cash Management regulations have defined the disbursement of a loan as the payment to the borrower. In this chapter, we will use "disbursement" in the sense of the Cash Management regulations, that is, payment to the borrower.

#### **Paying Loan Funds to the Borrower**

34 CFR 668.164, General Provisions  
34 CFR 682.604, FFEL  
34 CFR 685.303, Direct Loans

#### **Common Origination and Disbursement (COD) System**

Beginning this spring (2002), Direct Loan schools will report their disbursements for the 2002-2003 award year to the COD system.

**For 02-03 Direct Loan data & support:**

<http://cod.sfa.ed.gov>  
[codsupport@afsa.com](mailto:codsupport@afsa.com)  
1-800-848-0978

**For 01-02 Direct Loan data & support::**

<http://lo-online.ed.gov/>  
[loan\\_origination@mail.eds.com](mailto:loan_origination@mail.eds.com)  
1-800-848-0978

### Student starts later in the payment period

If a student delays attending school but begins attendance within the first 30 days of enrollment, the school may consider the student to have maintained eligibility for the loan from the first day of the enrollment period.

amount of the loan—the change in enrollment may have resulted in a significantly lower cost of attendance. The aid administrator must document this review in the student's file.

Also remember that your school cannot retain the loan funds indefinitely—check Chapter 5 on “Cash Management” in *Volume 2*.

When you report the student's change in enrollment status but expect the student to resume enrollment within a time period that is less than a payment period in length, you must specifically request that the lender make the second or subsequent disbursements. Otherwise, the lender is required by law to cancel the second disbursement. (See 34 CFR 682.207(b))

If the student has transferred from another school, you must check the National Student Loan Data System to confirm that the student is not in default and is still within the annual and aggregate loan maximums. (See Chapter 4 of this volume for more information on using the NSLDS to confirm the outstanding loan amounts for transfer students.)

## Disclosure Statement

The disclosure statement is not the same thing as the notification of a disbursement that your school must send to the student. An FFEL lender must give a borrower a copy of an initial disclosure statement prior to, or at the time of, the first loan disbursement. In the Direct Loan Program, a school may elect to provide this disclosure to the student, or, if the school prefers, the statement will be provided to the student by the Loan Origination Center. In addition to general information about the student's rights, this disclosure will include some information that is specific to the student's loan, such as:

- the principal amount of the loan and the actual interest rate;
- the amount of any charges, including the origination fee, if applicable, and the insurance premium, to be collected by the lender before or at the time of each loan disbursement;
- when repayment is required and when the borrower is required to pay the interest that accrues on the loan;
- the name and address of the lender and the address to which communications and payments should be sent;
- the minimum annual payment required, and minimum and maximum repayment periods; or
- an estimate of the monthly payment due the lender, based on the borrower's cumulative outstanding debt (including the loan applied for).

The disclosure statement must provide the most up-to-date information concerning the loan and must reflect any changes in laws or federal regulations that may have occurred since the promissory note was signed. If the student has questions about the statement or wishes to cancel the loan, he or she should contact the lender immediately. In either case, the student should **not** endorse a loan check or an EFT form authorizing transfer of loan proceeds to his or her account.