Introduction

These loans are offered through two programs with different delivery systems: the William D. Ford Federal Direct Loan (Direct Loan) Program and the Federal Family Education Loan (FFEL) Program. While the borrower's eligibility is the same under either program, the procedures are different because funds for Direct Loans are provided directly to the school by the federal government, while loan funds under FFEL are usually provided by a private lender and are guaranteed by a state agency.

Federally guaranteed loans were first authorized 35 years ago, in Part B of Title IV of the Higher Education Act of 1965 (HEA). For many years, these were termed "Guaranteed Student Loans."

The Higher Education Amendments of 1992 (P.L. 102-325) renamed the guaranteed student loan programs the Federal Family Education Loan (FFEL) Program and the Student Loan Reform Act of 1993 authorized the Direct Loan Program, which is now Part D of the Higher Education Act. The Stafford and PLUS loans that are offered under these two programs have the same eligibility rules and the same annual and aggregate maximum amounts.

The main difference between the Direct and FFEL loan programs is the source of funds for borrowers. Funds for Direct Loans come from the federal government; loans made through the FFEL program are provided by private lenders and are insured by guaranty agencies and reinsured by the federal government. The federal guaranty on the FFEL loans replaces the security (the collateral) usually required for long-term loans from banks and credit unions.

Several thousand financial institutions participate in the FFEL program. In addition, some schools have opted to become lenders in the FFEL program. (See Chapter One for more information on the requirements for schools to act as FFEL lenders.)

Note that although guaranty agency procedures and policies must conform to the FFEL requirements discussed in this chapter, **individual guaranty agencies may have additional procedures and policies**. To obtain specific information about a guaranty agency's policies and procedures, contact that agency.

The following types of loans are available through both the Direct Loan and FFEL programs:

- **Subsidized Stafford Loans** are awarded to students who demonstrate financial need. Because the U.S. Department of Education (the Department) subsidizes the interest, borrowers are not charged interest while they are enrolled in school at least half time and during grace and deferment periods. (In the Direct Loan

Program, these loans are referred to as subsidized Federal Direct Stafford/Ford Loans or Direct Subsidized Loans .)

- **Unsubsidized Stafford Loans** are awarded to students regardless of financial need. Borrowers are responsible for paying the interest that accrues during any period. Independent students and students whose parents cannot get a PLUS have higher unsubsidized loan limits. (In the Direct Loan Program, these loans are referred to as unsubsidized Federal Direct Stafford/Ford Loans or Direct Unsubsidized Loans.)

- **PLUS Loans** allow parents to borrow on behalf of their dependent undergraduate children who are enrolled at least half time. As with unsubsidized Stafford loans, borrowers are responsible for the interest that accrues on PLUS Loans throughout the life of the loan.

- **Consolidation Loans** allow any borrower to combine one or more federal education loans into a new Direct Loan or FFEL to facilitate repayment. The process of consolidating loans usually does not directly involve the school—the consolidating lender purchases qualifying student loans from other lenders and combines them into a single loan.

In this reference, unless specifically referred to as a Direct Loan or an FFEL, the terms "Stafford Loans," "Consolidation Loans," and "PLUS Loans" refer to loans in both programs.

RECENT CHANGES

While there have been no significant regulatory changes over the past year, the delivery process for the loan programs continues to evolve. For this year's edition, we've added an explanation of how to determine the loan amounts the student has previously borrowed when the original loans have been consolidated. We've also added information about electronic signatures and how they affect the loan process (Chapter 4). Finally, in Chapter 7, we've expanded our discussion of the Student Status Confirmation Reports to explain how the SSCR submission requirement can be satisfied through the use of third-party services (Student Loan Clearinghouse).

We hope that you find this information helpful. If you have suggestions for improvements, or questions about this publication, please feel free to contact us at:

sfaschoolspubs@ed.gov