

Loan counseling is particularly important because new students often have little or no experience with anticipating repayment and managing debt. Your school must ensure that the student receives comprehensive entrance and exit counseling, even though the counseling may be given by a consultant or a servicer, or by a lender or guarantor (usually on the Web). At a minimum, the student has to receive entrance counseling before the first disbursement of a loan can be made; and exit counseling before leaving school. If the counseling is given electronically, the school is still responsible for making sure that the student receives written counseling materials and for making knowledgeable staff available to answer student questions.

This chapter covers the elements of entrance and exit counseling that are required by regulation or recommended. However, there are many ways to deliver this information, and to reinforce it through continuing contacts with your student borrowers. You have an opportunity at each disbursement to remind students about the importance of academic progress, planning for future employment, and staying in touch with the holder of the loan. If loan counseling is ongoing, the exit interview is simply a review of information conveyed during the course of the student's program of study and a means of presenting additional material to prepare the student for repaying loans.

Dynamic presentation of material at both entrance and exit interviews—using charts, handouts, audiovisual materials, and question-and-answer sessions—can convey your message with greatest effect. Many guaranty agencies, lenders, and other organizations offer videos, pamphlets, and other counseling materials. The Direct Loan program also offers entrance and exit counseling guides as well as companion videos for counselors and borrowers.

Your school may choose to rely on the Web counseling services offered through the Direct Loan Program and through many lenders and guarantors. The program regulations have been amended to allow a school to provide counseling through “interactive electronic means.” However, bear in mind that knowledgeable financial aid staff at the school must be reasonably available to answer questions from student borrowers.

Direct Loan Counseling

Direct Loan schools can order counseling materials by calling:

1-800-848-0978

On-line counseling and print materials are also available on-line at the Direct Loan Web Site:

<http://www.ed.gov/DirectLoan>

On-Line Counseling

Discussion in preamble to August 10, 1999 NPRM; FFEL—34 CFR 682.604 DL—34 CFR 685.304



Counseling materials for overseas or correspondence students

If a borrower is participating in a school's junior-year-abroad program or other off-campus program, and has not previously received a loan at that school, the school must provide entrance counseling information by mail before releasing loan proceeds. A school that offers correspondence coursework as part of its academic programs must also provide the information by mail before releasing loan proceeds.

Entrance Counseling

34 CFR 682.604(f); 34 CFR 685.304(a); 34 CFR 668 Appendix D

Regardless of the counseling methods your school uses, you must be sure to document that the student received entrance counseling. In the case of Web-based counseling, the documentation may consist of the student's certification on a copy of the "Borrower's Rights and Responsibilities" that he/she has received entrance counseling. You can usually get confirmation that the student has completed on-line counseling session through a printout, electronic message, or other means.

The chart at the end of this chapter summarizes information to be covered as a part of entrance and exit counseling sessions. The arrows indicate those elements that must be covered in both entrance and exit counseling.

ENTRANCE COUNSELING

A school must conduct "initial" or entrance counseling before releasing the first disbursement of the first Federal Stafford Loan made to a student borrower. The counseling must be conducted in person, by audiovisual presentation, or by interactive electronic means, and a person knowledgeable about Student Financial Assistance (SFA) programs must be available for questions shortly after the counseling session.

Required elements of entrance counseling

The Direct Loan and FFEL regulations and Program Participation Agreements *require* that certain information be included in entrance counseling. In addition, the regulations *recommend* that the entrance counseling include the information listed in Appendix D of the General Provisions (34 CXFR 668). Some of this information is included in the "Borrower's Rights and Responsibilities" statement that must accompany the MPN, but you should review and elaborate on these points as a part of the counseling presentation. The required counseling information is discussed below, with notes to any related information recommended by Appendix D.



- **Use of the Master Promissory Note.** Both the Direct Loan and FFEL regulations require that entrance counseling include an explanation of the MPN. You should advise the student to carefully read the MPN and the Borrower's Rights and Responsibilities statement before signing the MPN.
- **Importance of repayment.** The regulations also require that entrance counseling "emphasize ... the seriousness and importance of the repayment obligation." The counseling should stress that the borrower must make payments on his or her loans even if the borrower does not receive a payment booklet or a billing notice. The lender or Direct Loan Servicing Center sends payment coupons or billing statements as a convenience for the borrower. Not receiving them does **not** relieve the borrower of his or her obligation to make payments. (Direct Loan borrowers are encouraged to set up electronic

debiting of a bank account to repay their loans—electronic debiting is also available through many FFEL lenders.)

- **Consequences of default.** Entrance counseling must “describe in forceful terms the likely consequences of default, including adverse credit reports and litigation.” Appendix D makes some more specific recommendations for the counseling session. The borrower should be told of the charges that might be imposed for delinquency or default, such as the lender or guarantor’s collection expenses (including attorney’s fees). Defaulters often find that repayment schedules for loans that have been accelerated are more stringent than the original repayment schedule. A defaulter is no longer eligible for any deferment provisions, even if he or she would otherwise qualify. Finally, a defaulter’s federal and state tax refunds may be seized, federal wages garnished, and the borrower loses eligibility for any further funding from the SFA programs.
- **Must repay regardless of educational outcome.** Entrance counseling information for an FFEL school must explain that the student borrower is obligated to repay the full loan even if he or she doesn’t finish the program, can’t get a job after graduating, or is dissatisfied with the school’s educational program or other services.
- **Average indebtedness and monthly repayment.** A Direct Loan school must include general information on the average indebtedness and the average anticipated monthly repayment for students who have received Direct Loans in the same educational program or at that school. (This information is not *required* for FFEL schools, but is *recommended* in Appendix D of the General Provisions.

Recommended elements from Appendix D

Some of the recommendations in Appendix D of the General Provisions are mentioned above, where they relate to required counseling information. The remaining recommendations are listed below.

- **Terms and conditions of the loan.** As a part of entrance counseling, the borrower should be told the stated interest rate on his/her loan(s), the applicable grace period, and the approximate date the first installment payment will be due.

Often a student loan is the borrower’s first experience in obtaining a loan of any kind, and a counselor should clearly explain basic loan terminology to ensure that a borrower is aware of his or her obligations. FFEL program counseling materials should define terms such as “loan servicer,” the use of contractors to service the loan, and should explain the process of selling loans to other lenders or to “secondary markets.” Lenders and guaranty agencies provide explanations about these and other terms in the material they make available to

Alternative Entrance Counseling Approaches

The Direct Loan regulations describe how a school may adopt alternative approaches as a part of its quality assurance plan — see 685.304(a)(5)

students and schools. (A loan servicer is a corporation that administers and collects loan payments for the loan holder. A secondary market is a lender or a private or public agency that specializes in buying student loans.)

- **Repayment Options.** The counseling information should explain that the **exact** repayment schedule will not be provided until loan repayment begins. The student should also be told that certain fees (origination fee and, for FFEL, an insurance fee) will be subtracted from the loan amount before the loan is disbursed but that repayment of the **full** loan amount is required. The counseling should also review the availability of loan consolidation and refinancing.
- **Budgeting.** It would also be helpful to include general information for the student about budgeting of living expenses and personal financial management. Financial planning includes decisions by the borrower about the amount of student aid that he or she can afford to borrow. Budgeting information can be combined with an assessment of the student's earning potential in his or her chosen career, and with required information about anticipated monthly payments and overall indebtedness.
- **Communication with the lender and change in status.** The counseling should stress the student's obligation to keep the lender (or the Direct Loan Servicing Center) informed about address changes, or changes in enrollment. (Failure to tell the lender about these changes is perhaps the primary reason that loans go into default.) The borrower should always know the most current name and address of the lender, the loan servicer, and the guarantor of the loan.

The student is required to inform the lender when he or she graduates, changes schools, drops below half-time, or withdraws from school. The borrower also must tell the DL Servicing Center or the lender if his/her address changes (including changes in the permanent address while in school). The student should also be reminded of the importance of notifying the holder of the loan in the event of a name change (including the change of a last name in through marriage) or a change in Social Security Number.

- **Requesting deferments, etc.** The borrower should have a general understanding of the deferment, forbearance, and cancellation options, and how to apply for them. The counseling should stress that the borrower needs to contact the lender if he or she is having difficulty in repaying the loan, as the lender may be able to suggest options that would keep the loan out of default.

- **Review Borrower’s Rights and Responsibilities.** As noted in the chapter on Making Loans, the student must receive a statement of Borrower’s Rights and Responsibilities. This may be provided by the Direct Loan Origination Center or the FFEL lender, but it’s a good idea to review the information on the statement with the borrower to make sure that he or she is familiar with that information.

Appendix D also recommends the use of written tests to make sure that the student understands the terms and conditions of Stafford Loans. If the student fails the test, the school should make sure that the student receives additional counseling. (Testing and additional counseling after failed tests are *required* if the school is implementing a default management plan because it has a high cohort default rate.)

Other useful information for entrance counseling

There are some other helpful things that the borrower should be aware of, even though they are not explicitly mentioned in the regulations. You may want to include these in your counseling materials:

- **Refund and other policies affecting withdrawals.** The borrower should be aware of the school’s academic progress policy and refund policy, and the conditions for return of SFA funds.
- **Importance of keeping loan records.** This would be a good time, if the financial aid administrator has the resources, to provide a student with a folder or other aids to encourage him or her to keep all financial aid materials in one place. The student should keep copies of all records relating to the loan, beginning with the Master Promissory Note, records showing when the student received loan payments or his/her account was credited. The borrower should keep the loan repayment schedule provided by the lender when repayment begins, as well as records of payments made by the borrower—including canceled checks and money order receipts. The borrower should keep copies of any requests for deferment or forbearance, or any other correspondence with the lender.
- **Availability of other aid.** In the Program Participation Agreement (PPA), a school agrees to provide information about state grant assistance in the state where it is located. (For out-of-state students, a source of information for state grant assistance in the student’s home state.) In general, you should always encourage your student borrowers to explore sources of grant assistance that might reduce their need for loans.

Exit Counseling
Requirements Cites
DL—34 CFR 685.304(b);
FFEL—34 CFR 682.604(g)

Staying in Touch with the Direct Loan Servicer

If they keep their PIN number handy, Direct Loan borrowers can manage their loans on-line by going to:

<http://www.dlservicer.ed.gov/>

to check account balances, change address, estimate repayments, or print out forms (deferment, forbearance, electronic debit account).

- **Reminder about exit counseling.** Because many students leave school before the scheduled end of their academic programs, it's helpful to remind students during entrance counseling that they are obligated to attend exit counseling before they cease to be enrolled **at least half time**.

EXIT COUNSELING

A school can conduct exit counseling either in person, either individually or in groups. As with entrance counseling, exit counseling is also offered on the Web by guarantors, lenders, and the Direct Loan Program. Student borrowers should be advised to complete on-line exit counseling or sign up for a counseling session (if offered at your school) shortly before graduating or ceasing at-least-half-time enrollment. As with entrance counseling, knowledgeable financial aid staff at the school must be reasonably available to answer questions from student borrowers. One of a borrower's obligations is to participate in an exit counseling session.

Required elements of exit counseling

Some of the material presented at the entrance counseling session will again be presented during exit counseling. The emphasis for exit counseling shifts, however, to more specific information about loan repayment and debt-management strategies. The following information must be provided as a part of exit counseling:

- **Projected monthly repayment.** The borrower must be given an estimate of the average monthly payments based on his/her indebtedness (or on the average indebtedness of Stafford borrowers at that school or in that program). Appendix D recommends that the borrower be given a sample *loan repayment schedule* based on his/her total indebtedness. A loan repayment schedule usually will provide more information than just the expected monthly payment — for instance, it would show the varying monthly amounts expected in a graduated repayment plan.

Note that the lending organization is not required to send the repayment schedule to the borrower until the grace period. Direct Loan borrowers who use the On-line Exit Counseling Session (www.dlservicer.ed.gov) can view repayment schedules based on their account balances (using their PIN numbers), select a repayment plan, and update demographic information.

In Direct Loans, a school may request that the Servicing Center send the repayment schedule information to the financial aid office 30, 60, or 90 days before the student completes the program. If the school chooses this option, it accepts the obligation to deliver this repayment information to the borrower either in the exit counseling session or by mailing it to the borrower.

- **Repayment options.** The counseling must review the available options for loan repayment, such as the standard, extended, graduated and income contingent/income-sensitive plans. The option of consolidating loans must also be discussed.

A Consolidation Loan can help student and parent borrowers simplify loan repayment by consolidating several types of federal student loans with various repayment schedules into one loan. The borrower can even consolidate just one loan into a Direct Consolidation Loan to get benefits such as flexible repayment options. If the borrower has more than one loan, a Consolidation Loan simplifies repayment because there's only one monthly payment. Also, the interest rate on the Consolidation Loan may be lower than what the borrower is paying on some of his/her current loans. Consolidation may also be an option for a borrower in default, if certain conditions are met.

Both the Direct Loan Program and the FFEL Program offer Consolidation Loans. Direct Consolidation Loans are available from the U.S. Department of Education. FFEL Consolidation Loans are available from participating lenders such as banks, credit unions, and savings and loan associations.

- **Debt management strategies.** A counselor should stress the importance of developing a realistic budget based on the student's minimum salary requirements. It's helpful to have the student compare these costs with the estimated monthly loan payments, and to emphasize that the loan payment is a fixed cost, like rent or utilities.
- **Deferment, forbearance, and cancellation.** The counseling should reinforce the availability of deferment and cancellation for certain situations, and emphasize that the borrower must initiate the process by applying to the lender or the Direct Loan Servicing Center. FFEL schools are also required to discuss the availability of forbearance. It's also very important that the borrower remember that he or she must continue to make payments on the loan while waiting for approval of the request for any of these conditions.
- **Keeping in touch with the lender and change of status.** Exit counseling should review the borrower's responsibility to notify either the lender or the Direct Loan Servicing Center of important changes in enrollment status and contact information.
- **Other information from entrance counseling.** Exit counseling also must review several other topics that were covered in entrance counseling: the consequences of default and the importance of the repayment obligation. Exit counseling at FFEL schools must also review the use of the Master Promissory Note, and the obligation to repay the loan even if the borrower

Checking Completion of On-Line Exit Counseling

Direct Loan schools can use the program's Web site to confirm which of their students has completed on-line exit counseling:

<http://www.dlsvicr.ed.gov/schools/>

SFA Ombudsman Office

Toll-free: 1-877-557-2575
<http://sfahelp.ed.gov>

Office of the Ombudsman
 U.S. Dept. of Education
 ROB-3, Room 3012,
 7th & D St. SW
 Washington, DC 20202-5144

(202) 401-4498
 fax: (202) 260-1297



Borrower's Rights and Responsibilities Statement

These are the contents of the statement that the borrower must receive prior to signing the master promissory note — Appendix D recommends that you review the student's rights and responsibilities as a part of exit counseling.

- Governing Law
- Use of this Note
- Subsidized and Unsubsidized Loans
- Maximum Program Loan Amounts
- Maximum Individual Loan Amounts
- Use of Loan Money.
- Disbursement of Loan Money
- Change of Status
- Effect of Loans on Other Student Aid
- Grace Period
- Repayment
- Interest Rates
- Payment of Interest
- Loan Cancellation
- Sale or Transfer of Loans (FFEL)
- Loan Discharge
- Consequences of Default
- Capitalization of Interest
- Credit Bureau Notification
- Special Repayment Arrangements
- Deferments
- Forbearance
- Repayment Chart (showing repayment amounts under different repayment plans, based on varying amounts of initial debt)

drops out, doesn't get a job, or is otherwise dissatisfied with the quality of the school's educational programs and services.

- **Provide information about the availability of the SFA Ombudsman's office.** The Ombudsman's office is a resource for borrowers to use when other approaches to resolving student loan problems have failed. Borrowers should first attempt to resolve complaints by contacting the school, company, agency, or office directly involved. If the borrower has made a reasonable effort to resolve the problem through normal processes and has not been successful, he or she should contact the SFA Ombudsman.

Further recommendations for exit counseling

The exit counseling provisions in the Direct Loan and FFEL regulations also refer to the recommendations in Appendix D of the Student Assistance General Provisions. Some of these recommendations have already been mentioned as a part of the required elements.

Appendix D recommends that the school provide the borrower with the current name and address of the borrower's lender(s), based on the latest information the school has. The counseling presentation should also explain to the student how to complete deferment forms and prepare correspondence to the lender.

As with entrance counseling, Appendix D of the General Provisions recommends the use of written tests to ensure comprehension of the exit counseling information, with additional counseling provided to students who fail the test. And testing and additional counseling may be *required* if the school is implementing a default management plan.)

Information to be provided by borrower

During exit counseling, the financial aid administrator must obtain the borrower's expected permanent address after leaving school, the address of the borrower's next of kin, the name and address of the borrower's expected employer (if known). A school must correct its records to reflect any changes in a borrower's name, address, Social Security Number, or references, and it must obtain the borrower's current driver's license number. Within 60 days after the exit interview, the financial aid office must provide this information to the guarantor (indicated in the borrower's student aid records) or the Direct Loan Servicing Center.

Responsibilities if a student misses exit counseling

If the student borrower drops out without notifying the school, the financial aid administrator must confirm that the student has completed on-line counseling, or mail exit counseling material to the borrower at his or her last known address. The material must be mailed within 30 days after learning that the borrower has left school or failed to participate in an exit counseling session. For

correspondence programs, the financial aid administrator must send the borrower written counseling materials within 30 days after the borrower completes the program, with a request that the borrower provide the contact and personal information that would ordinarily have been collected through the counseling process.

A school mailing these exit materials is not required to use certified mail with a return receipt requested, but it must document in the student's file that the materials were sent. If the student fails to provide the information, the school is not required to take any further action.

Entrance Counseling

Required Elements:

- Reinforce Importance of Repayment 
- Describe Consequences of Default 
- Explain Use of the Master Promissory Note 
- Stress that Repayment Is Required Regardless of Educational Outcome and Subsequent Employability 
- Provide Estimate of Average Indebtedness and Monthly Repayment

Recommended Elements:

- Review Terms and Conditions of the Loan
- Review Repayment Options
- Discuss Budgeting
- Reinforce Importance of Communicating Change of Status, Etc. with the Lender
- Review Deferment, Forbearance, Cancellation Options and Procedures
- Review Borrower's Rights and Responsibilities

Other Useful Information:

- Availability of Other Aid
- Review Refund and Other Policies Affecting Withdrawals
- Reinforce Importance of Keeping Loan Records
- Remind Student of Exit Counseling Requirement

Exit Counseling

Required Elements:

- Provide Estimate of Monthly Payments
- Review Loan Consolidation Option (and, at Direct Loan Schools, Repayment Options)
- Discuss Debt Management Strategies and Options
- Review Deferment and Cancellation Options and Procedures (and, at FFEL Schools, Forbearance)
- FFEL Schools: Reinforce Importance of Communicating Change of Status, Etc. with the Lender. DL Schools: Explain How to Contact Servicing Center
- Provide Information about Availability of SFA Ombudsman's Office
- Update any changes to student's personal information (name, social security number, etc.) and collect driver's license number, expected permanent address, address of next of kin, and name and address of employer (if known).

Review certain elements also covered in entrance counseling (indicated by arrows in left-hand column—elements indicated by outlined arrow are only required to be repeated in exit counseling for FFEL.)

Recommended Elements:

- Provide Student with Contact Information for Lender(s)
- Advise Student on Preparation of Correspondence to Lender, Deferment Requests, Etc.