

Chapter 2

Direct Loan Counseling

Counseling Overview

First-time student borrowers must complete entrance counseling before they can receive the first disbursement of a Direct Loan, and all student Direct Loan borrowers must complete exit counseling shortly before they cease to be enrolled on at least a half-time basis. There is a special counseling requirement for student and parent Direct PLUS Loan borrowers who meet the requirements to receive a Direct PLUS Loan after having been determined to have an adverse credit history. This chapter discusses the counseling requirements for Direct Loan borrowers and associated school responsibilities.

Entrance Counseling

Entrance counseling is required for all first-time student Direct Subsidized Loan, Direct Unsubsidized Loan, and student Direct PLUS Loan borrowers. Entrance counseling is not required for parent Direct PLUS Loan borrowers.

For this purpose, a first-time Direct Subsidized Loan or Direct Unsubsidized Loan borrower is someone who has not received a prior Direct Subsidized Loan, Direct Unsubsidized Loan, Subsidized Federal Stafford Loan, Unsubsidized Federal Stafford Loan, or Federal Supplemental Loans for Students (SLS) Loan. In the case of a graduate or professional student who requests a Direct PLUS Loan, a first-time Direct PLUS Loan borrower is someone who has not received a prior student Direct PLUS Loan or student Federal PLUS Loan. Subsidized and Unsubsidized Federal Stafford Loans, Federal SLS Loans, and Federal PLUS Loans are loan types that were made under the Federal Family Education Loan (FFEL) Program before the authority to make new FFEL Program loans ended effective July 1, 2010.

Before making the first disbursement of a Direct Subsidized Loan, Direct Unsubsidized Loan, or student Direct PLUS Loan to a first-time borrower, you must ensure that the student receives entrance counseling.

Entrance counseling provides borrowers with comprehensive information on the terms and conditions of the loan they are about to receive, and their responsibility to repay the loan. This information may be provided during an in-person counseling session, on a separate written form that the borrower signs and returns to the school, or online or by interactive electronic means, with the borrower acknowledging receipt of the information.

If entrance counseling is conducted online or through interactive electronic means, your school must take reasonable steps to ensure that students finish the counseling, which may include completing a test of their understanding of the terms and conditions of the loan. If a standardized, interactive electronic tool is used for counseling, you must give the borrower any required information that is not addressed in the tool either in person or in a separate written or electronic document.

Your school must have someone with expertise in the *Title IV* programs reasonably available shortly after the counseling to answer students' questions. As an alternative, if students are enrolled in an approved correspondence, distance education, or study-abroad program, they may be provided with written counseling materials before the loan is disbursed.

You may not require students to complete additional counseling beyond entrance counseling. However, your entrance counseling policy can require more than the minimum specified by the regulations as long as the additional requirements are reasonable as to time, effort, and relevance to the students' borrowing and are not administered in a way that unreasonably impedes students' ability to receive Direct Loans in a timely manner. For example, your entrance counseling can include one or more of the following:

- Extra information as part of in-person individual or group training or through your website, other electronic means, written materials, or different methods;
- A requirement for first-time student borrowers to take a test or evaluation of what they learned in counseling (though you cannot establish a passing score that they must achieve to get a Direct Loan);
- A requirement for students to complete a worksheet, budget, or other exercise designed to improve financial literacy and understanding of the implications of borrowing (but you cannot require them to justify the need for a loan); or

- A requirement for students to participate in a workshop, loan orientation presentation, or similar activity.

You cannot require, but you can encourage borrowers to participate in counseling beyond entrance counseling to be better informed about borrowing, the terms of their Direct Loans, their repayment responsibilities and options, and the consequences of default. Your school can also offer financial literacy classes, on a credit or non-credit basis, that include information on budgeting, debt management, anticipated earnings by profession, elements of loan counseling, etc., though eligibility for a Direct Loan cannot be contingent on completion of such a class.

Direct Loan Entrance Counseling

[34 CFR 685.304\(a\)](#)

Loan Counseling Requirements and Flexibilities

[DCL GEN-15-06](#)

Required Entrance Counseling Content for Direct Subsidized Loan and Direct Unsubsidized Loan Borrowers

Below we provide a summary of the information that must be covered in entrance counseling for Direct Subsidized Loan and Direct Unsubsidized Loan borrowers. For more detailed information, refer to the regulations cited at the end of this section.

Entrance counseling for Direct Subsidized and Unsubsidized loan borrowers must:

- Explain the use of a Master Promissory Note (MPN);
- Emphasize the importance of the loan repayment obligation;
- Describe the likely consequences of default, including adverse credit reports, delinquent debt collection procedures under Federal law, and litigation;
- Emphasize that the borrower must repay the full amount of the loan even if the borrower does not complete the program, does not complete the program within the regular time for program completion, is unable to obtain employment upon completion, or is otherwise dissatisfied with or does not receive the educational or other services that the student paid for with the loan;
- Inform the student borrower of sample monthly repayment amounts based on a range of student levels of indebtedness depending on the types of loans the borrower has received, or based on the average indebtedness of other borrowers in the same program at the same school;
- Explain how accepting the loan will affect the borrower's eligibility for other forms of student financial assistance;
- Provide information on how interest accrues and is capitalized during periods when the interest is not paid by either the borrower or the Department;
- Inform the borrower of the option to pay the interest on a Direct Unsubsidized Loan while the borrower is in school;
- Explain the definition of half-time enrollment at the school and the consequences of not maintaining half-time enrollment;

- Explain the importance of contacting the appropriate offices at the school if the borrower withdraws before completing their program of study so that the school can provide exit counseling;
- Provide information on how the borrower can access their records in the National Student Loan Data System (NSLDS); and
- Provide the name of the individual the borrower may contact if the borrower has questions about the borrower's rights and responsibilities or the terms and conditions of the loan.

Required Content for Direct Subsidized Loan and Direct Unsubsidized Loan Entrance Counseling

[34 CFR 685.304\(a\)\(6\)](#)

[HEA Sec. 485\(l\)\(2\)\(l\)](#)

Required Entrance Counseling Content for Graduate and Professional Student Direct PLUS Loan Borrowers

The information that must be covered in entrance counseling for graduate and professional student Direct PLUS Loan borrowers is summarized below. For more detailed information, refer to the regulations cited at the end of this section.

Entrance counseling for graduate or professional student Direct PLUS Loan borrowers must:

- Inform the student borrower of sample monthly repayment amounts based on a range of student levels of indebtedness depending on the types of loans the borrower has received, or based on the average indebtedness of other borrowers in the same program at the same school;
- Inform the borrower of the option to pay interest on a Direct PLUS Loan while the borrower is in school;
- For a graduate or professional student PLUS Loan borrower **who has received** a prior Direct Subsidized Loan, Direct Unsubsidized Loan, Subsidized Federal Stafford Loan, or Unsubsidized Federal Stafford Loan, provide the borrower with a comparison of:
 - The maximum interest rate for a Direct Subsidized Loan and a Direct Unsubsidized Loan and the maximum interest rate for a Direct PLUS Loan;
 - Periods when interest accrues on a Direct Subsidized Loan and a Direct Unsubsidized Loan and periods when interest accrues on a Direct PLUS Loan; and
 - The point when a Direct Subsidized Loan and a Direct Unsubsidized Loan enters repayment, and the point when a Direct PLUS Loan enters repayment; and
- For a graduate or professional student PLUS Loan borrower **who has not received** a prior Direct Subsidized Loan, Direct Unsubsidized Loan, Subsidized Federal Stafford Loan, or Unsubsidized Federal Stafford Loan, provide the information specified above under "Required Entrance Counseling Content for Direct Subsidized Loan and Direct Unsubsidized Loan Borrowers."

Required Content for Student Direct PLUS Loan Entrance Counseling

[34 CFR 685.304\(a\)\(7\)](#)

Exit Counseling

A Direct Subsidized Loan, Direct Unsubsidized Loan, or student Direct PLUS Loan borrower who is graduating, leaving school, or dropping below half-time enrollment is required to complete exit counseling. If the student withdraws without notifying your school, you must confirm that they have completed online counseling or mail exit counseling material to the student at their last known address. You may also email the information to the student's home (not school) email address if you have it. The PDF version of the [Direct Loan Exit Counseling Guide](#) satisfies this requirement. You may also send the student a **direct link** to the exit counseling materials online. Whatever method you choose must be used within 30 days of learning that the borrower has withdrawn or failed to participate in an exit counseling session.

When mailing exit materials to a student who has left school, you're not required to use certified mail with a return receipt requested, but you must document in their file that the materials were sent. If they don't provide updated contact information, you don't need to take further action.

The required content of exit counseling is summarized in the section that follows. For more detailed information, refer to the regulations cited at the end of the section.

Required Exit Counseling Content

Exit counseling must:

- Inform the student borrower of the average anticipated monthly repayment amount based on the student borrower's indebtedness or on the average indebtedness of student borrowers who have received Direct Loans for attendance at the same school or in the same program of study at the same school;
- Review all available Direct Loan repayment plan options, including a description of the different features of each plan and sample information showing the average anticipated monthly payments, and the difference in interest paid and total payments under each plan;
- Explain the options to prepay each loan, to pay each loan on a shorter schedule, and to change repayment plans;
- Provide information on the effects of loan consolidation;
- Include debt management strategies that are designed to facilitate repayment;
- Explain to the borrower how to contact their loan servicer;
- Explain the use of an MPN;
- Emphasize the importance of the loan repayment obligation;
- Emphasize that the borrower must repay the full amount of the loan even if the borrower does not complete the program, does not complete the program within the regular time for program completion, is unable to obtain employment upon completion, or is otherwise dissatisfied with or does not receive the educational or other services that the student paid for with the loan;
- Describe the likely consequences of default;
- Provide a general description of the terms and conditions under which a borrower may obtain full or partial forgiveness or discharge of a loan, defer repayment of a loan, or be granted forbearance on a loan;
- Provide a copy, either in print or by electronic means, of the information the Department makes available in accordance with section 485(d) of the HEA (see below);
- Review information on the availability of the Department's Student Loan Ombudsman's office;
- Inform the borrower of the availability of *Title IV* loan information in NSLDS and how NSLDS can be used to obtain *Title IV* loan status information;
- Inform the borrower that (1) they may be contacted during the repayment period by third-party student debt relief

companies; (2) the borrower should use caution when dealing with those companies; and (3) the services typically provided by those companies are already offered free of charge through the Department or the borrower's loan servicer;

- Provide a general description of the types of tax benefits that may be available to borrowers (i.e. student loan interest deduction); and
- Require the borrower to provide current information concerning their name, address, Social Security number, references, and driver's license number and state of issuance, as well as the borrower's expected permanent address, the address of their next of kin, and the name and address of the borrower's expected employer, if known (see also "Providing Borrower Information at Separation" below).

Required Content for Exit Counseling

[34 CFR 685.304\(b\)\(4\)](#)

As stated above, Direct Loan exit counseling must provide borrowers with the information the Department makes available in accordance with section 485(d) of the HEA. This section of the law requires the Department to make available to postsecondary schools and other entities a wide variety of information about federal student assistance programs, including information to help students assess the debt burden and repayment obligations that will be incurred as a result of receiving *Title IV* loans. As noted below under "Counseling Methods," documentation that a borrower has completed the Department's online exit counseling fully satisfies all Direct Loan exit counseling requirements. Schools that choose to conduct their own exit counseling can meet the requirement to provide borrowers with the information made available by the Department in accordance with section 485(d) of the HEA by providing borrowers with a copy of the Department's [Direct Loan Exit Counseling Guide](#).

Providing Borrower Information at Separation

Schools that conduct their own exit counseling must provide the current personal information collected from the student (name, address, references, etc.) to students' loan servicers within 60 days. Students authorize their school to release information to servicers in the loan promissory note they signed. No further permission is needed.

Students who complete online exit counseling on the Department's [StudentAid.gov](#) website fulfill this requirement as part of the counseling session; NSLDS provides the information to the loan holders.

Counseling Methods

The Department offers Direct Loan Program [online entrance and exit counseling](#) for students on the StudentAid.gov website. Your school will receive notification through the Student Aid Internet Gateway (SAIG) (see "Required Electronic Processes" in *Volume 2*, Chapter 3 for more information) of online loan counseling completed by borrowers, and completion information can also be viewed on the [COD System website](#). If your school documents that borrowers have completed the Department's online counseling, it has satisfied its counseling responsibility. Documentation that a borrower has completed the Department's online entrance or exit counseling fully satisfies all Direct Loan entrance or exit counseling requirements.

Your school may also choose to provide entrance or exit counseling through an in-person session or (for entrance counseling) by providing a separate written form to the student that the student signs and returns to the school. If your school conducts in-person counseling sessions, charts, handouts, audiovisual materials, and question-and-answer sessions can help convey the information in a more dynamic manner. We also recommend the use of written tests or interactive programs to ensure that students understand the terms and conditions of their loans. Counseling materials, such as the entrance and exit counseling guides, are available in the [Financial Aid Toolkit](#).

A school may adopt an alternative approach for entrance counseling as a part of its quality assurance plan. For more

information, see the regulation cited below.

Regardless of the counseling methods your school uses, it must document that the student received entrance and exit counseling, and it must ensure that an individual with expertise in the *Title IV* programs is reasonably available shortly after the counseling to answer the student's questions.

Alternative Approach for Entrance Counseling

[34 CFR 685.304\(a\)\(8\)](#)

Counseling for Correspondence and Study Abroad Students

If a first-time student borrower has enrolled in a study-abroad program (approved by a U.S. school for credit) or a correspondence or distance learning program, the school must document that the student has completed online entrance counseling that meets the regulatory Direct Loan entrance counseling requirements or provide written entrance counseling information by mail or email before making the first disbursement of a Direct Loan to the student.

In the case of exit counseling for correspondence programs or study abroad programs, the school may mail or email the borrower written counseling materials within 30 days after the borrower completes the program, with a request that they provide the contact and personal information that would ordinarily have been collected through the counseling process.

Providing Additional Information

Your school can take additional steps to counsel students, such as assisting them with developing a budget, estimating need for loans, and planning for repayment. You can also reinforce messages to borrowers. For example, with each disbursement you can remind students about the importance of maintaining satisfactory academic progress (SAP; see *Volume 1*, Chapter 1 for details on SAP requirements), planning for future employment, and staying in touch with the loan servicer. Sample measures for loan counseling are given in the "Sample Default Prevention Plan" that can be found in the regulations cited below.

Sample Default Prevention Plan

[https://www.ecfr.gov/current/title-34/subtitle-B/chapter-VI/part-668/subpart-N/appendix-Appendix A to Subpart N of Part 668](https://www.ecfr.gov/current/title-34/subtitle-B/chapter-VI/part-668/subpart-N/appendix-Appendix%20A%20to%20Subpart%20N%20of%20Part%20668)">34 CFR 668 Subpart N, Appendix A

PLUS Loan Credit Counseling

Special loan counseling is required for any student or parent Direct PLUS Loan applicant who has been determined to have an adverse credit history, but who qualifies for a Direct PLUS Loan either by getting a loan endorser or by documenting to the satisfaction of the Department that there are extenuating circumstances related to the adverse credit. While the special PLUS Loan Credit Counseling is mandatory only for these borrowers, any PLUS borrower can voluntarily complete this counseling. See Chapter 1 of this volume for more information about adverse credit.

Note that the special counseling described above is separate from the entrance counseling that all first-time graduate and professional student Direct PLUS Loan borrowers must complete, as described earlier in this chapter.

Annual Student Loan Acknowledgement

The Department offers a tool on the StudentAid.gov website called the Annual Student Loan Acknowledgement. The [Annual Student Loan Acknowledgement](#) allows student and parent borrowers to view how much they currently owe in federal student loans and acknowledge that they have seen this amount. Although it is not required, the Department continues to encourage borrowers to complete an Annual Student Loan Acknowledgement each year they accept a new Direct Loan to help them understand their loans and how those loans will affect their financial future.

Schools will receive information through the COD System about a borrower's optional completion of the Annual Student Loan Acknowledgment process. However, the COD System will not reject disbursement records submitted for a borrower who has not completed the Annual Student Loan Acknowledgment.