Operational Guidance for Direct Loan Changes to be Implemented June 27-28, 2008
Attachment to DLB-08-17

Origination Fee Reduction for Direct Subsidized Loans and Direct Unsubsidized Loans

As part of the changes to the student loan programs made by the Higher Education Reconciliation Act of 2005 (the HERA), Pub. L. 109-171, the origination fee for Direct Subsidized Loans and Direct Unsubsidized Loans will again be reduced for 2008-2009. Complete details about implementing the origination fee reduction can be found in DLB-08-05.

Interest Rate Reduction for Undergraduate Direct Subsidized Loans

As part of the changes made to the student loan programs by the College Cost Reduction and Access Act of 2007 (the CCRAA), Pub. L. 110-84, the interest rate for Direct Subsidized Loans made to undergraduate students will be gradually reduced over the next four years, beginning with loans first disbursed on or after July 1, 2008. This interest rate reduction applies only to Direct Subsidized Loans made to undergraduate students. There is no reduction in the interest rate for Direct Subsidized Loans made to graduate and professional students, or for Direct Unsubsidized Loans. For additional information about the interest rate reduction, see Dear Colleague Letter GEN-08-01.

Because the interest rate reduction applies only to Direct Subsidized Loans made to undergraduate students, schools may not simply adjust the grade level and loan amount if a student changes from undergraduate to graduate status, or vice versa, within the same academic year. Instead, schools must cancel any pending disbursements of the original loan and originate a new loan at the appropriate grade level in order to ensure that the correct interest rate is applied. For example, if a school has awarded a Direct Subsidized Loan for a fall-spring academic year to a fourth-year undergraduate who graduates at the end of the fall semester and enrolls in a graduate program at the school during the spring semester, the school must cancel any pending disbursements of the undergraduate Direct Subsidized Loan and originate a new Direct Subsidized Loan at the graduate student level for the spring semester.

Entrance Counseling for Graduate and Professional Student Direct PLUS Loan Borrowers

Final regulations that were published on November 1, 2007 (72 FR 61960) require entrance counseling for first-time graduate and professional student Direct PLUS Loan borrowers. Effective July 1, 2008, schools must ensure that entrance counseling is conducted before making the first disbursement of a Direct PLUS Loan to a graduate or professional student who has not received a prior PLUS loan through the Direct Loan Program or the Federal Family Education Loan Program. Complete details have been provided in DLB-08-13.

Note: In late July 2008, Federal Student Aid plans to add a new indicator reflecting the borrower counseling type to the existing entrance counseling report/file sent to schools via the Student Aid Internet Gateway (SAIG). The indicator will appear in the filler section of the file layout. Information about this SAIG report change is still being finalized and will be provided in a forthcoming Direct Loan Bulletin.

"Late" Late Disbursements

Final regulations that were published on November 1, 2007 amended the provisions that allow schools to make late disbursements of Federal student aid authorized under Title IV of the Higher Education Act of 1965, as amended (HEA), including Direct Loans. Specifically, the regulations extended the period for making a late disbursement from 120 days to 180 days, and eliminated the provision that allows schools to request approval from the Department to make late disbursements beyond the regulatory late disbursement period.

As a result of these changes, which take effect July 1, 2008, we will be discontinuing the "late" late disbursement approval process. For additional information, please refer to the Electronic Announcement previously posted on the Information for Financial Aid Professionals (IFAP) Web site. In addition, COD System Edit 50 (Disbursement Date is Outside the Allowable Window) will be changed to allow disbursement dates up to 180 days after the Financial Award End Date.

Note: COD System Edit 50 allows for the latest possible Direct Loan late disbursement date (180 days after the end of the loan period). However, schools must comply with the late disbursement regulations that are described in the Electronic Announcement previously posted on the IFAP Web site. Under the regulations, the 180-day period during which a school may make a late disbursement of a Direct Loan Program loan begins on the date that the student ceases to be enrolled at least half time for the loan period. This means that in many cases, the 180-day late disbursement period will begin earlier than the Financial Award End Date. For example, if a student withdraws or drops below half-time enrollment status before the end of the loan period, the school does not have 180 days from the end of the loan period to make a late disbursement. Rather, the school may make a late Direct Loan disbursement up to 180 days after the date that the student withdrew or dropped below half-time status.

Loan Periods Greater than 12 Months

Final regulations that were published on November 1, 2007 eliminated the provision that placed a 12-month limit on the maximum length of time for a loan period. As a result of this change, which takes effect July 1, 2008, we will alter certain COD System edits.

Edit 45 (Incorrect Award Dates) will be changed to allow Financial Award Begin and Financial Award End Dates to be up to 36 months in length.

Edit 46 (Incorrect Academic Year Dates) will be changed to allow Academic Year Start and Academic Year End Dates to be up to 36 months in length.

Note: Although the regulations no longer specify a maximum limit on the length of a loan period, the COD System edits allow for a maximum 36-month loan period. This is intended as a reasonable limit that will adequately accommodate the needs of schools.

Increased Annual Loan Limits for Direct Unsubsidized Loans

As part of the changes to the student loan programs made by the Ensuring Continued Access to Student Loans Act of 2008 (the ECASLA), Pub. L. 110-227, the annual loan limits for Direct Subsidized Loans will increase for some (but not all) students, effective for loans first disbursed on or after July 1, 2008. There are no changes to the annual loan limits for Direct Subsidized Loans.

Dear Colleague Letter GEN-08-08 posted on the IFAP Web site explains the loan limit increases in narrative and chart formats. In addition, DLB-08-16 provides operational guidance for implementing the increased annual loan limits for Direct Unsubsidized Loans.

Revised MPNs for Direct PLUS Loans and Direct Subsidized Loans/Direct Unsubsidized Loans

The Office of Management and Budget (OMB) has approved a revised Direct PLUS Loan MPN under OMB Control Number 1845-0068, with an expiration date of 08/31/2010. The revised Direct PLUS Loan Master Promissory Note (MPN) reflects changes made to the terms and conditions of Direct PLUS Loans by the CCRAA and final regulations that were published on November 1, 2007. Complete implementation guidance for the Direct PLUS Loan MPN can be found in DLB-08-14.

OMB has also approved a revised Direct Subsidized Loan and Direct Unsubsidized Loan MPN under OMB Control Number 1845-0007, with a new expiration date of 05/31/2011. The new MPN includes all updates through the ECASLA and eliminates the need for the current Direct Subsidized Loan and Unsubsidized Loan MPN Addendum. Complete implementation guidance for the Direct Subsidized Loan and Direct Unsubsidized Loan MPN can be found in DLB-08-15.

Option Change for the Direct Loan Electronic Master Promissory Note

Starting June 28, 2008, we will systematically update the electronic MPN participant profile for all schools on the Direct Loan Electronic MPN Web site. The "EMPN Participation?" box will be updated as "Y." No school or borrower action is necessary.

This profile change allows the school's name to appear in the dropdown menu on the Direct Loan Electronic MPN Web site for the student to select. If a school does not want its students to complete an electronic MPN, it must change the option back to "N." Schools can do so by logging into the Direct Loan Electronic MPN Web site or by contacting the COD School Relations Center 800/848-0978 for assistance.

Changes to Direct PLUS Loan Terms and Conditions

The ECASLA made two changes to the terms and conditions of Direct PLUS Loans. One change affects all Direct PLUS Loan borrowers; the other affects only parent borrowers. Additional information about these changes can be found in Dear Colleague Letter GEN-08-08.

1. Extenuating Circumstances for Direct PLUS Loan Eligibility (applies to both parent and graduate or professional student Direct PLUS Loan borrowers)

Effective May 7, 2008, the ECASLA establishes a specific extenuating circumstance for certain Direct PLUS Loan applicants who would otherwise be considered to have an adverse credit history. Specifically, a Direct PLUS Loan applicant may qualify

for a Direct PLUS Loan based on extenuating circumstances if the PLUS applicant, *during the period beginning January 1, 2007 and ending December 31, 2009, -*

- Has been or is delinquent for 180 days or less on mortgage loan payments, or on medical bill payments for the applicant or the applicant's family, ***and***
- Has not been or is not more than 89 days delinquent on the repayment of any other debt.

The current credit appeal process will be used to approve Direct PLUS Loan applications based on the new extenuating circumstance. Shortly, Direct PLUS Loan applicants who receive a credit denial will receive instructions with their denial letter informing them of the new criteria and explaining the appeal process.

2. Delayed Repayment Option for Parent Direct PLUS Loan Borrowers (applies only to parent Direct PLUS Loan borrowers)

For parent Direct PLUS Loans that are first disbursed on or after July 1, 2008, the ECASLA provides the borrower with the option of beginning repayment either 60 days after the loan is fully disbursed, or six months after the dependent student on whose behalf the loan was obtained ceases to be enrolled on at least a half-time basis.

Operational procedures related to this change are still being developed. Additional guidance will be provided in a forthcoming Direct Loan Bulletin. In the meantime, parent borrowers with Direct PLUS Loans first disbursed on or after July 1, 2008 should contact the Direct Loan Servicing Center at 800/848-0979 if they wish to delay repayment on their Direct PLUS Loans until six months after the student has ceased at least half-time enrollment.

Change to "Pnote Search" Screen on the COD Web site

The "Pnote Search" screen on the COD Web site will be enhanced to allow school users to complete MPN searches and TEACH Grant Agreement to Serve (ATS) searches on the same screen.

For MPN and ATS, users can search by

- SSN,
- MPN/ATS ID,
- First and Last Name, and
- Name/Date of Birth.

These searches will return results for both MPN and ATS as applicable.

For ATS only, users can search by

- Last Name (First Name and Date of Birth fields must be left blank)
- Date Range

These searches will return results for ATS as applicable.