

7 Borrower Care

OVERVIEW OF BORROWER & SERVICING CONTACTS

One of the hallmarks of the Direct Loan Program is its simplicity for borrowers. Direct Loan borrowers make all of their loan payments to the Direct Loan Servicing Center, and have the choice of consolidating their individual payments into a single loan. Borrowers also get a discount if they choose the convenient electronic debit option.

Though the repayment process has been made as simple as possible, there are several key decisions that a student must make when taking out a loan and when leaving school. Direct Loan schools play an important role in delivering loan information that the student needs to make these decisions.

Throughout the student's attendance, he or she must receive:

- A notification of the aid award (sent by the school).
- Entrance counseling (if a first-time borrower).
- Disclosure statement (sent by COD or the school).
- Notification of disbursement (sent by the school).
- Notification of subsequent loans (sent by the school), with either active/passive confirmation.
- Exit counseling.

These basic regulatory requirements can be supplemented by other school contacts with the borrower, and counseling materials or presentations that are customized to the needs of your student population.

Providing accurate and timely information to borrowers is essential, but there are other elements to borrower care. Your school can help ensure that most of its students successfully repay their loans by sharing borrower information with the Department.

- A school must regularly report on the enrollment status of any of its students who have borrowed from the Direct Loan or FFEL programs, which helps ensure that students attending at least ½-time receive in-school deferments.
- You may request regular reports showing delinquent borrowers who have received loans at your school.
- You can help borrowers avoid default by participating in the Late Stage Delinquency Assistance process.

Topics

Award notification

→ Includes aid from all FSA programs, as well as other required consumer information.

Entrance counseling

→ First-time student borrowers can complete on-line counseling at the DL Servicing site.

Disclosure statement

→ Typically sent to the borrower by COD, unless the school opts to send.

→ Usually only one disclosure statement per loan.

Notification of disbursement

→ School must notify student /parent borrower of each disbursement made on the loan.

Exit counseling

→ Separating borrowers can complete on-line counseling at the DL Servicing site.

Enrollment status reporting

→ School (or its designee) reports current student enrollment status to NSLDS.

Tracking delinquent & defaulted borrowers

→ Delinquency & Default reports

→ Late Stage Delinquency Assistance

"One-stop" service

Point your borrowers to the DL Servicing Web site (www.dl.ed.gov) for:

→ On-line entrance and exit counseling.

→ Up-to-date loan account information.

→ Repayment calculators.

→ Repayment plan selections.

→ Deferment, forbearance, and cancellation applications.

AWARD NOTIFICATION

Schools are required to notify students of any FSA funds that they have been awarded. This is a requirement that applies to all of the FSA programs.

Many schools include the FSA award information as a part of a more general “award letter” that lists all of the student’s aid awards. At four-year schools using traditional calendars, award notifications are usually sent in the spring before the school year begins. At schools with shorter programs and/or with a large commuter enrollment, aid offers and acceptances may happen at the beginning of a term or program. In either case, the student has the opportunity to accept or decline loan awards that are offered.

Loan award amounts are only one part of the consumer information that schools are required to provide to borrowers. In designing your award notification, you should consider how you want to integrate the other required elements of student consumer information. These requirements, which apply to all FFEL as well as Direct Loan schools, are discussed in Volume 2, Chapter 6 of the *Federal Student Aid Handbook*.

Sample award letter format

Dear Elaine Benis,

Based on the information that you provided, Kronos University is pleased to notify you of the following financial aid award(s) to help you finance your education.

BUDGET	EFC	UNMET NEED	AWARDED FUNDS	REMAINING NEED
\$11,850	-	0	= \$11,850	- \$11,850 = \$0

Type of Aid	Decline?	FALL	SPRING	TOTALS
Federal Pell Grant	[]	\$2,025	\$2,025	\$4,050
DL Sub Loan	[]	\$1,750	\$1,750	\$3,500
DL Unsub Loan	[]	\$1,400	\$1,400	\$2,800
FSEOG	[]	\$250	\$250	\$500
FWS	[]	\$500	\$500	\$1,000
TOTAL AWARD				\$11,850

You do not need to return this letter if you accept the conditions of the award. If you wish to decline any of the awards, check the box next to the award, sign below, and return this agreement to the address listed above. If you decide not to attend, your written notification to us voids this award.

ENTRANCE COUNSELING

Entrance counseling for first-time borrowers

Loan counseling is particularly important at colleges and universities because new students often have little or no experience with repayment and managing debt. Students can take online counseling at the Direct Loan Servicing Web Site (www.dl.ed.gov).

The Direct Loan Program also provides counseling materials to schools to supplement on-line counseling or on-campus counseling sessions. These include a printed Entrance Counseling Guide and an Entrance Counseling video (see sidebar for ordering information).

As a part of counseling, the student must receive sample monthly repayment amounts for different levels of indebtedness. Sample repayment tables are provided as a part of the on-line counseling presentation, and are printed in the back of the *Direct Loan Entrance Counseling Guide*.

The regulations require (for any form of counseling) that someone with expertise in the FSA programs be available shortly after the counseling to answer borrowers' questions about those programs.

Documenting that entrance counseling is completed

Regardless of the counseling methods your school uses, you must be sure to document that the student participated in and completed entrance and exit counseling. A Direct Loan school can sign up to receive regular reports that document the students who have completed on-line counseling (see sidebar).

Your software system may have the capability to import the data from these reports, and the software may also give you the option to prevent a loan from being originated until you've received confirmation that the student has completed counseling.



Direct Loan counseling materials

Direct Loan schools can order counseling materials, such as the Direct Loan Entrance Counseling Guide, Direct Loan Exit Counseling Guide, and the Direct Loan counseling videos from the FSA PUBS Web site at www.fsapubs.org

Counseling reports

To sign up for electronic reports listing students who have completed on-line loan counseling, log in to the COD Web site and then select the Direct Loan Servicing Online School site.

The prefixes for the Entrance Counseling message classes are:

- DECCxxx (Comma)
- DECfxxx (Fixed)
- DECPxxx (Pre-formatted)

Contents of entrance counseling

The on-line counseling presentation and the *Direct Loan Entrance Counseling Guide* cover the basic elements of entrance counseling required by regulation:

- Reinforce the importance of repayment.
- Describe the consequences of default.
- Explain the use of the Master Promissory Note.
- Stress that repayment is required, regardless of educational outcome or subsequent employability.
- Provide sample monthly repayment amounts.

Preparing your own counseling materials

If you are designing your alternative or supplemental counseling materials and presentations, see Volume 3, Chapter 6 of the *Federal Student Aid Handbook* for additional topics and exercises.

More ideas for counseling are given in the "Sample Default Management and Prevention Plan" issued as an attachment to GEN-05-14.

The Direct Loan regulations describe how a school may adopt alternative approaches as a part of its quality assurance plan — see 34 CFR 685.304(a)(4)

**Counseling student PLUS borrowers**

For more information on the requirements for student PLUS borrower, see the Federal Student Aid Handbook. The new requirements were published November 1, 2007.

34 CFR 682.604

34 CFR 682.304

Entrance Counseling for Student PLUS Borrowers

A school must also ensure that first-time student PLUS Loan borrowers receive entrance loan counseling. However, because graduate and professional students are likely to have already have had some experience with student loans, the counseling requirements are not as extensive as for students borrowing DL Subsidized or Unsubsidized loans for the first time.

This counseling requirement can be fulfilled through the completion of on-line counseling on the DL Servicing Web site, or by a school counseling presentation that uses the *DL Basics & Entrance Counseling for Student PLUS Borrowers*.

The required elements of entrance counseling are outlined below. Even if you rely on on-line counseling for most of your students, you may wish to reinforce these points through other communications with your students.

Required elements of entrance counseling for Graduate/Professional PLUS borrowers

Initial counseling for student PLUS borrowers must compare the following features of PLUS loans to those for Subsidized/Unsubsidized loans:

- the maximum interest rate,
- periods when interest accrues, and
- the point at which the loan goes into repayment.

In addition, the borrower must receive a statement of sample monthly repayment amounts based on total Direct Loan debt. The on-line entrance counseling presentation includes a sample repayment chart, as does the *DL Basics & Entrance Counseling Guide for Graduate/Professional Students*. A school may develop its own sample repayment chart, based on the average indebtedness of student borrowers at the same school or in a program of study at the same school.

If the borrower has not previously received a Federal Stafford, or Direct Subsidized or Unsubsidized Loan, you must *also*—

- explain the use of the Master Promissory Note,
- emphasize the importance of repayment,
- describe the consequences of default, and
- emphasize that repayment is required, even if the student has trouble finding employment or is dissatisfied with the training that he or she has received.

■ THE DISCLOSURE STATEMENT

The Disclosure Statement provides the borrower with important loan-specific information, such as the anticipated loan disbursement amounts, the anticipated loan disbursement dates and the amount of the borrower's loan fee. It must be provided to the borrower before or at the time of the first disbursement of a Direct Loan.

The COD System prints and mails a Disclosure Statement to the borrower's permanent address unless—

- your school has notified COD School Relations that your school will provide Disclosure Statements for *all* of its borrowers, or
- you have entered “S” as the Disclosure Statement Print Code in the origination record for that specific loan.

COD will also print/provide the disclosure statement to the borrower (and send a warning) if you send disbursement data to COD less than 5 days before the first disbursement date and don't indicate that you've printed/provided the disclosure statement.

The Disclosure Statement is usually printed only once for each loan, 30 days before the first anticipated disbursement date, as reported by the school. (For a PLUS loan, COD will not send the disclosure statement until it has received an approved credit decision.) Depending on when the loans were originated, the student's Disclosure Statement may include information for both Subsidized and Unsubsidized Loans.

The COD System does not automatically reprint Disclosure Statements when changes to the Award Amount, Disbursement Dates, or Disbursement Amounts are received. However, you may request that a new disclosure be sent to the student by entering “R” as the Disclosure Statement Print Code when you are submitting the award changes.

School option to provide disclosure statements

If your school chooses to provide Disclosure statements to its borrowers, it must also provide a Plain Language Disclosure to the borrower for any subsequent loans made on a multi-year promissory note.

While the Disclosure Statement provides specific loan amounts and disbursement dates, the Plain Language Disclosure is a general summary of the terms and conditions of the loan. Essentially, the Plain Language Disclosure serves the same purpose as the Statement of Borrower's Rights and Responsibilities that is provided with the original MPN.

The school must send the Disclosure and Plain Language Disclosure within the required time-frame—up to 30 days before the anticipated disbursement date, but no later than the date it first disburses Direct Loan funds for a new loan period.

Borrower's right to cancel or change the loan amount

The Disclosure Statement is the borrower's second opportunity (the school's initial award offer is the first) to review the loan award and either decline the loan or request a lower amount.

A school must also notify the student or parent in writing when FSA loan funds are being credited to a student's account, and honor any timely request by the borrower to reduce or cancel the loan. (See Chapter 4.)

When COD sends a combined Sub/Unsub disclosure statement

Even if loan origination records for a student's Subsidized Loan and Unsubsidized Loan arrive in COD on different days, COD sends a single disclosure statement if—

- both loans have the same first anticipated disbursement date; and
- both loan origination records were processed earlier than 30 calendar days before the first anticipated disbursement date for the loans.

Disclosure statements for more than one school

If a student borrower applies to more than one school, each school might submit a loan origination record to the COD system. As a result, the borrower could receive disclosure statements for loans at different schools.

The disclosure statement is not a promissory note, and it does not require a borrower's signature. Because of this, a borrower should focus only on the disclosure statement from the school he or she plans to attend and disregard disclosure statements from other schools.

NOTIFICATION OF DISBURSEMENT

In addition to the disclosure statement for the loan, the borrower must receive a notice of each disbursement. Since this is typically a function of the business office at the school, we've described this notification in Chapter 5 of this *Guide*. As discussed in that chapter, this notice gives the borrower another opportunity to cancel the loan within prescribed time-frames.

Sample notification format

Dear Steve R. Vaughan,

The following loans were applied to your student account [68075] on January 10, 2008:

Federal Direct Subsidized Loan \$1,730.00

Federal Direct Unsubsidized Loan \$2,210.00

Please note that the amounts listed above reflect the NET amount of the loan, which is the amount that is paid to your account. Direct Loans are subject to a loan fee, minus an up-front interest rebate that is contingent upon 12 months of on-time payments when the loan enters repayment. You can find more information about loan fees and the interest rebate on the Direct Loan Web site: www.ed.gov/Direct Loan

You have a right as a borrower to cancel all or part of these loans within 14 days of receiving this letter. If you do wish to cancel any part of the loan, please notify Financial Aid Services and pay any outstanding balance to the Business Office immediately. If you accept the loans listed above, no further action is necessary on your part.

If you have any questions or concerns about your loan, please contact us at xxx-xxx-xxxx.

Sincerely,

Director,
Financial Aid Services

EXIT COUNSELING

Borrowers who are graduating or leaving college must receive exit counseling. Like entrance counseling, exit counseling does not have to be provided directly by your school, and a school can choose one of several ways to meet this requirement, including online exit counseling at the DL Servicing Web site (www.dl.ed.gov).

The same requirements that apply to conducting entrance counseling (in-person, handouts, audiovisual, someone with expertise in FSA programs, etc.) also apply to exit counseling sessions. Again, your school is responsible for ensuring that a student has completed the exit counseling process.

Documenting completion of exit counseling & updating borrower information

You must document that the student has completed exit counseling. If the student completed exit counseling on the Direct Loan Servicing Web site, then you will receive an electronic report through your SAIG mailbox confirming that the student completed counseling. Be sure to retain these reports for at least 3 years after the end of the last award year that the student attended your school.

For student borrowers who drop out without notifying your school, you must either confirm that the student has completed online counseling or mail exit counseling material to the borrower at their last known address. The material must be mailed within 30 days of the date a school learns that a borrower has withdrawn or failed to participate in an exit counseling session. Schools must document the student's file that the materials were sent; however, if the student fails to provide the updated contact information, no further action is necessary.

If the student completes exit counseling at the school, the school must ensure that the borrower's personal and contact information is submitted to the Direct Loan Servicing Center within 60 days after the student borrower provides the information.

Points of emphasis for exit counseling

- Stress the importance of remaining in contact with the Direct Loan Servicing Center. Be sure the student has the DL Servicing Center's Web address and contact numbers (see sidebar). Remind students that they can use the DL Servicing Web site to review repayment schedules, select a repayment plan, and update name and address information.
- Borrowers who are having difficulty in repaying their loans may be uncomfortable with contacting the Center directly, so you may also wish to provide contact information for your office. Your office can serve as a helpful neutral party in advising the student of options such as forbearance and deferment.
- Exit counseling can also be an opportunity for you to make sure that the student is using all of the resources available at your school for career planning and job location. In addition, you may be able to recommend other resources for debt management and budgeting that are appropriate to the career expectations and family characteristics of your graduates.



Direct Loan Servicing Center

Borrowers can view their loan information and update their account on-line at:
www.dl.ed.gov

A student who is having trouble making payments should be urged to contact the DL Servicing Center at:

Toll free: 1-800-848-0979

TDD for Hearing Impaired: 1-800-848-0983

Exit counseling reports

You can use the DLSC Web site to view a list of all students at your school who have completed exit counseling online, or you can look up a single student to determine if he or she completed Exit Counseling online while attending *any* Direct Loan school.

Go to: www.dl.ed.gov/schools

Basic exit counseling requirements

Exit counseling must review several of the elements previously covered in entrance counseling:

- Reinforce the importance of repayment.
- Describe the consequences of default.
- Explain the use of the Master Promissory Note.
- Stress that repayment is required, regardless of educational outcome or subsequent employability.

In addition, exit counseling must:

- Provide sample monthly repayment amounts.
- Review the options for loan repayment.
- Discuss debt management strategies.
- Discuss the availability of information on NSLDS and the availability of the FSA Ombudsman's office.
- Ensure that borrowers understand their rights and responsibilities.

Repayment Schedules

Schools may request that the DL Servicing Center send repayment schedule information to the financial aid office 30, 60, or 90 days before students complete their programs. If your school chooses this option, please be sure to deliver the repayment information to the borrower.

The school's role in consolidating a Perkins loan

When a borrower wants to include a Perkins Loan in a consolidation, a verification certificate is mailed to your school by the DLSC for completion. Verification certificates should be completed and returned to the servicing center within 10 days. The borrower's loans cannot be consolidated until the verification certificate is properly completed and returned.

More information for schools on consolidation

For more information about how your school can assist borrowers with loan consolidation:

DL Servicing at:
www.dl.ed.gov/schools

Direct Consolidation Loans at:
<http://loanconsolidation.ed.gov/>

Advising students on the benefits of consolidation

Students attending programs that stretch over several years can end up with a long list of loans to repay. In either the FFEL and Direct Loan programs, a student may be borrowing both subsidized and unsubsidized loans in each academic year. A graduate student could easily have over a dozen loans to repay by the time he or she leaves school. If some of these loans were taken out while attending schools that awarded FFEL loans, the payments might have to be made to several different lenders.

If your graduating students have Direct Loans, or a combination of FFEL and Direct Loans, a Direct Consolidation Loan greatly simplifies repayment because the borrower only makes a single monthly payment to one lender for all of the loans that have been consolidated. (Borrowers may be eligible for a Direct Consolidation Loan even if a school only participates in the FFEL Program.)

Other considerations:

- A Consolidation Loan can lower the borrower's total monthly repayment and simplify loan repayment. Because the repayment period for the Consolidation Loan is often longer than for most Stafford Loans, the monthly payments may be lower. (On the other hand, the total interest that is paid over the longer repayment period is usually greater.)
- Consolidation may also be an option for a borrower in default, if certain conditions are met.
- The borrower should also be aware that some deferments and other benefits available with his/her current loans (especially Perkins) may be lost through consolidation.

ENROLLMENT STATUS REPORTING (SSCR)

All schools participating (or approved to participate) in the FSA programs must have some arrangement to report student enrollment data to the National Student Loan Data System (NSLDS) through a Roster file (formerly called the Student Status Confirmation Report or SSCR). Student enrollment information is extremely important because it is used to determine if the student is still considered in school, needs to be moved into repayment, or is eligible for an in-school deferment.

NSLDS sends Roster files electronically to the school's SAIG Mailbox, or the mailbox of the school's designated servicer. The file includes all of the students at your school who NSLDS has identified as FFEL or Direct Loan borrowers (or beneficiaries of a parent PLUS loan). Note that it will also include students who received some or all of their FSA loans at other schools but are currently attending your school.

Schools are required to report:

- changes in the student's enrollment status,
- the effective date of the status, and
- an anticipated completion date.

Changes in enrollment to less than half time, graduated, or withdrawn must be reported within 30 days. However, if a Roster file is expected within 60 days, a school may provide the data on that roster file.

For schools using a servicer, please remember that your school is ultimately responsible for notifying NSLDS of student enrollment changes. For further detail on NSLDS Enrollment Reporting, see Volume 1 of the *FSA Handbook*.



NSLDS online services

The application for NSLDS online services is completed through the Participation Management's (PM) Student Aid Internet Gateway (SAIG) Enrollment Form at www.fsawebebenroll.ed.gov.

Certifying a Record in NSLDS

After the school certifies a record in NSLDS, the roster will always contain the last information provided by the school. Previous certification information, which only a school can provide, will not be overridden by subsequent enrollment information provided by the GA or DLSS. Only the school can change the enrollment information once it has certified the record.

On-line Enrollment Updates

Because enrollment information can be reported online, it is possible for more current enrollment data to be showing in NSLDS than on the most recent roster.

School Support Services

The School Support Services Team at the Direct Loan Servicing Center can assist you with any LSDA-related questions about the borrower or using the Web site to identify at-risk borrowers. In addition, the School Support Services Team will always be available to assist in counseling at-risk borrowers in resolving their delinquencies.

School Support Services works with NSLDS, the Clearinghouse, and other data providers to resolve data conflicts, including any missing or incorrect Direct Loan information that appears in NSLDS

Contact School Support Services

Monday - Friday 8:00 a.m. - 8:30 p.m. EST

Toll free: 1-888-877-7658

Fax: 1-800-848-0984

501 Bleecker Street

Utica, NY 13501

You can also contact the DLSC Loan Counseling Department outside regular operating hours.

Monday - Thursday 8:30 p.m. - 10:00 p.m.

and Saturday 8:00a.m. - 5:30 p.m.

TRACKING DELINQUENT & DEFAULTED BORROWERS

To promote loan repayment, DL schools are encouraged to notify the Direct Loan Servicing Center (DLSC) if they receive new information about a delinquent borrower's location or employment.

The DLSC offers Delinquency Reports to assist aid administrators with default management activities. These reports list all delinquent and defaulted Direct Loan borrowers, organized by the number of days past due, who took out loans while attending the school. They also contain the borrowers' name, addresses, and phone numbers. Using these reports, you can contact and counsel borrowers to avoid default or you may wish to work with borrowers who have already defaulted on their Direct Loans.

There are three types of Delinquency Reports: the Borrower History Report, the Summary Delinquency Report, and the Detail Delinquency Report. The reports are available online, through your SAIG mailbox, or you can enroll to have the Summary Delinquency Report e-mailed each month.

School Support Services provides assistance to schools with delinquency management and can answer your questions regarding information in school delinquency reports.

Late Stage Delinquency Assistance (LSDA)

Subsidized and Unsubsidized loan borrowers who are delinquent by more than 240 days are considered in "late stage delinquency." Many students go into default simply because they don't understand their options.

We strongly recommend that schools provide Late Stage Delinquency Assistance as part of their default aversion efforts. By providing this assistance, your school can help to keep borrowers from going into default, and reduce its Cohort Default Rate.

Schools work in collaboration with the Direct Loan Servicing Center (1-888-877-7658) to contact and counsel the borrowers.

The school can choose to offer assistance in the following ways:

- Provide the Servicer with more recent demographic information to better enable the Center to contact the student.
- Make contact with the borrower and refer them to the Servicer.
- Make contact with the borrower and counsel along with the Servicer through 3 way calling.
- Invite the borrower to your office and provide the counseling yourself, providing direct assistance to the student to resolve the delinquency.

The DL Servicing Web site has been enhanced with a new Web-based tool that will help to identify quickly the borrowers that will affect the next cohort default rate. The Web site enables you to sort delinquent borrowers by the late stage delinquency buckets and by cohort default year.



On-Line Delinquency Reports

Log in to the DLSC's Web site www.dl.ed.gov using your schools user ID and password; c.lick on School Reports.

To begin an LSDA project at your institution:

- You will need up-to-date delinquency or pre-claims data from the DL Servicing Center (or lender, for any of your students who have FFELs).
- You use any supplemental contact information kept by your school to contact borrowers to begin the process of connecting the borrower with the DL Servicing Center (or FFEL lender).
- Develop a script to guide your conversation with the student borrowers.
- Review the deferment and forbearance provisions for the Direct Loan Program.
- Begin by contacting borrowers who are the most delinquent (i.e., 330-360 days).