

Overview of the Direct Loan Program

The William D. Ford Federal Direct Loan Program (Direct Loan Program) was authorized under Title IV of the Higher Education Act of 1965, as amended (HEA) when the Student Loan Reform Act of 1993 was enacted. It began operation in the 1994-95 award year. A major source of federal student financial assistance, the Direct Loan Program provides loans to eligible borrowers to cover postsecondary education costs. Direct lending uses funds provided by the federal government, requires only a single application, and makes loans available directly through participating institutions.



Laws & Regulations

- HEA, Title IV, Part D
- 34 CFR 685

How the Direct Loan Program Benefits Schools

Simplified Paperwork—Borrowers use only one application—students use the Free Application for Federal Student Aid (FAFSA) and parents use the Direct PLUS Loan application/promissory note—to begin the Direct Loan process. Borrowers consolidating loans use the Direct Consolidation Loan application. Loan information, except for the promissory note, is transmitted and acknowledged electronically.

Streamlined Administration—Disbursements and adjustments are processed more efficiently, particularly since there is no need to obtain lender or guaranty agency approvals.

Electronic Transfer of Funds from a Single Source—Waiting for funds from multiple lenders is no longer necessary. The improved cash flow reduces the need for short-term, emergency student loans and allows for funds to be disbursed more efficiently.

Control Over the Loan Process—Borrower questions are answered quickly and accurately. Schools are given reliable information about receiving funds and on current loan record and promissory note status.

Assured Access to Capital—One single, unlimited source of capital ensures that eligible students are fully funded for the entire school year. Because the federal government provides program funds, there is no risk of loss of funds due to market conditions.

Autonomy and Flexibility—Schools may begin to participate in the Direct Loan Program at any time during the year. Schools are also free to participate in both the Direct Loan Program and Federal Family Education Loan (FFEL) Program, with the understanding that no student may receive both types of loans during the same loan period.

How the Direct Loan Program Benefits Students

Loans Obtained Quickly and Easily—Only one application—students use the Free Application for Federal Student Aid (FAFSA) and parents use the Direct PLUS Loan application/promissory note—is needed to apply for a Direct Loan. Borrowers consolidating loans use the Direct Consolidation Loan application. Electronic data and funds transfers reduce processing time and allow for more efficient disbursement of funds. Students do not need to endorse bank checks.

One Loan Holder, One Contract—The U.S. Department of Education (ED) is the only loan holder the borrower will have during the life of the loan. This gives the borrower one contact source for questions involving repayment, deferment, forbearance, consolidation, and other loan issues. Also, since only one monthly payment is made, paperwork and opportunities for confusion and error are reduced.

Flexible Repayment Options—Borrowers can choose from a variety of repayment plans, including an Income Contingent Repayment (ICR) Plan. This flexibility allows borrowers to pursue postsecondary education opportunities with minimal risk of burdensome monthly payments or the possibility of defaulting on loans.

Types of Direct Loans

The following types of loans are available through the Direct Loan Program:

- ❖ **Federal Direct Stafford/Ford Loans (Direct Subsidized Loans)** are made to students (undergraduate, graduate, and professional) who demonstrate financial need. Borrowers are not charged interest while they are enrolled in school at least half time and during grace periods and deferment periods.
- ❖ **Federal Direct Unsubsidized Stafford/Ford Loans (Direct Unsubsidized Loans)** are made to students (undergraduate, graduate, and professional). They do not require students to demonstrate financial need. Borrowers are responsible for the interest that accrues during any period over the life of a Direct Unsubsidized Loan.
- ❖ **Federal Direct PLUS Loans (Direct PLUS Loans)** allow parents to borrow on behalf of their dependent undergraduate children who are enrolled at least half time at a postsecondary school. Interest on a Direct PLUS Loan begins to accrue when the first installment is disbursed.
- ❖ **Federal Direct Consolidation Loans (Direct Consolidation Loans)** allow borrowers (students or parents) to combine one or more federal education loans into one new Direct Loan requiring only one monthly payment. There are three types of Direct Consolidation Loans:
 - ❖ Direct Subsidized Consolidation Loans,
 - ❖ Direct Unsubsidized Consolidation Loans, and
 - ❖ Direct PLUS Consolidation Loans.

Even if a borrower consolidates his or her federal education loans into more than one category, the borrower still:

- ❖ has only one Direct Consolidation Loan and
- ❖ makes only one monthly payment.

Basic Responsibilities of Direct Loan Program Participants

The main participants in the Direct Loan Program are the borrowers (students or parents), the schools, and ED. Each participant has a specific role.



For Your Information

At this writing, master promissory notes are not available for parent borrowers. ED anticipates master promissory notes will be developed for Direct PLUS Loan borrowers in the 2000-01 academic year to be used beginning with the 2001-02 academic year.

- ◆ **Student borrowers** must complete the Free Application for Federal Student Aid (FAFSA), participate in loan counseling, sign a completed master promissory note, and repay the loan.
- ◆ **Parent borrowers** must complete and sign the required application/promissory note, meet established credit standards, borrow on behalf of an eligible student, and repay the loan.
- ◆ **Schools** must meet and maintain specific eligibility criteria, meet and maintain specific criteria to originate loans, and sign a Direct Loan amendment to their Program Participation Agreement with ED.
- ◆ **ED** is responsible for funding, servicing, and collecting loans; creating and maintaining database systems; providing support services to schools; and maintaining oversight of the program. ED provides support services primarily through regional Client Account Managers (CAMs), who work directly with schools to resolve Direct Loan issues.

Basic student and institutional eligibility requirements under the Direct Loan Program are consistent with other Title IV programs. Specific information about Title IV eligibility can be found in:

- ◆ the *Compilation of Student Financial Aid Regulations*, which contains the Direct Loan Program regulations as well as General Provisions requirements,
- ◆ Direct Loan brochures, guides, and publications available on ED's Direct Loan Web site, and
- ◆ the *Student Financial Aid Handbook*.



Resources

- *Compilation of Student Financial Aid Regulations*
- <http://ed.gov.DirectLoan>
- *SFA Handbook*