

In general, up until the point a loan is “booked,” the Direct Loan Program’s Loan Origination Center (LOC) is responsible for loan activities (including sending loan disclosure statements) and interacting with borrowers. Once a Direct Loan is booked, the Direct Loan Servicing Center (DLSC) becomes responsible for loan activities (including collecting loans) and interacting with borrowers.

Put another way, the LOC handles front-end processes for the Direct Loan Program, and the DLSC handles back-end processes. The dividing point is when a loan is booked.

Direct Loan Servicing Center (DLSC)

As the Direct Loan Servicing Center’s (DLSC’s) name implies, its primary purpose is to service existing Direct Loans.

The DLSC has a Web site that provides Direct Loan borrowers with general loan servicing information (such as answers to frequently asked questions), borrower-specific information (such as direct access to account information), and an interest calculator.

In addition to Web page information and interactions, the DLSC’s responsibilities include:

- ◆ contacting students after the initial Direct Loan disbursement to provide a welcome letter containing additional loan information;
- ◆ The letter provides a student’s loan ID number, type of loan(s)—subsidized and/or unsubsidized, school name, expected graduation date, borrower account number, total indebtedness, approved loan amount, loan fee, net proceeds, and date of disbursement. Information on repayment plan options, loan consolidation, and borrower services also is provided.



For Your Information

A Direct Loan is booked (becomes official) at the point when the LOC has received and accepted a borrower’s:

- loan origination record,
- signed promissory note, and
- disbursement record.



Web Site

- <http://www.dlserver.ed.gov>

- ❖ applying and capitalizing accrued interest, applying fees, and maintaining correct borrower account balances;
- ❖ creating borrower-specific exit counseling materials;
- ❖ on a daily basis, recording all Direct Loan payments received and applying payments to borrowers' accounts;
- ❖ tracking and researching any unapplied payments;
- ❖ tracking Direct Loans through borrowers' in-school periods and grace periods and converting loans to repayment status at the proper time;
- ❖ processing Direct Loan borrowers' deferment and forbearance requests;
- ❖ reporting Direct Loan information to the National Student Loan Data System (NSLDS);
- ❖ collecting and analyzing all information needed to support Direct Loan borrowers' repayment plan choices;
- ❖ performing comprehensive Direct Loan collection activities, including billing, letter writing, telephoning, skip tracing, and borrower tracking activities; and
- ❖ repaying collected Direct Loan proceeds to the U.S. Department of Treasury.



Take a Look

See Appendix A, page A-4, for a detailed listing of DLSC phone numbers. DLSC hours are 8 am to 8:30 pm (ET).



Where to Call

The phone number for the DLSC's borrower services department is 1-800-848-0979.

Most of the DLSC's communications with borrowers deal with:

- ❖ loan disbursement notifications,
- ❖ repayment options (including selecting, changing, and postponing repayment), and
- ❖ account information (monthly billings, quarterly interest statements, and annual statements).

Loan Disbursement Notifications

The school is the borrower's primary contact up to the time a Direct Loan is disbursed.

After the LOC receives an electronic disbursement record from the school that it has disbursed loan funds to a borrower, the LOC sends an electronic record of the disbursement to the DLSC.

At that point, the DLSC contacts the borrower and begins a relationship that continues until the borrower fully repays the loan. Within three business days of receiving the booking transaction, the DLSC mails the borrower a welcome letter.

If the borrower hasn't received the loan proceeds, he or she should contact the school. If the borrower has questions about the loan, he or she should contact the DLSC.

Repayment Options

The DLSC helps borrowers select and, when needed, change repayment plans.

The DLSC does this by providing exit loan-counseling support to schools and working directly with borrowers.

Selecting a Repayment Plan

The Direct Loan Program offers four repayment plan options.

In addition, an alternative repayment plan is available on a case-by-case basis for borrowers with exceptional circumstances.

A Direct Loan borrower may select the:

- ◆ Standard Repayment Plan,
- ◆ Extended Repayment Plan,
- ◆ Graduated Repayment Plan, or
- ◆ Income Contingent Repayment Plan.

A Direct PLUS Loan borrower, however, may select any plan except the Income Contingent Repayment Plan.



Take a Look

See page 12-1 for information about the contents of a welcome letter.



Take a Look

See Chapter 2 for details about repayment plans.



Take a Look

See Chapter 3 for details about exit counseling requirements.

Student Borrowers

The DLSC makes repayment plan information available to student borrowers primarily through materials it provides to schools for use during exit counseling.

In addition to general counseling materials, schools can choose to receive borrower-specific exit counseling packages from the DLSC. Each student's package uses the student's personal loan history to compute how much he or she would pay each month under each of the repayment plan options. Monthly repayment amounts are calculated for three of the four repayment plan options. (ICR repayments cannot be calculated without income information.)

A school arranges for the DLSC to send borrow-specific exit counseling packages by contacting the LOC.

- ◆ The school notifies the LOC that it would like to receive exit counseling packages for its graduating borrowers. The school also specifies when it would like to receive the packages, for example, 30, 60, or 90 days before graduation.
- ◆ The LOC then monitors the completion/graduation dates of the students and assembles information needed for exit counseling.
- ◆ The DLSC prepares the personalized exit counseling packages and sends them to the school at the specified time.

A school needs to request exit counseling packages only once. The DLSC continues sending them to the school for all graduating Direct Loan borrowers unless the school asks the LOC that packages no longer be sent.

When student borrowers begin a grace period, they receive a mailing saying they have 60 days in which to select a repayment plan. If the DLSC doesn't receive a borrower's plan selection by the 60th day of the grace period, it sends another mailing to the borrower asking him or her to select a repayment plan. If a borrower still doesn't select a plan, 60 days before the borrower's grace periods ends, the DLSC automatically places the borrower on the Standard Repayment Plan.

Parent Borrowers

Parent Direct PLUS Loan borrowers receive a mailing from the DLSC that explains their repayment plan options and gives borrower-specific repayment information. If parents don't select a repayment plan, the DLSC automatically places them on the Standard Repayment Plan.

Changing Repayment Plan

The Direct Loan Program allows borrowers the flexibility of switching repayment plans. For information on switching plans or to switch plans, borrowers contact the borrower services department at the DLSC.

A borrower repaying a defaulted loan under the Income Contingent Repayment Plan may not switch plans unless he or she:

- ❖ was required to make, and did make, a payment under the Income Contingent Repayment Plan in each of the preceding three months or
- ❖ was not required to make payment but made three “reasonable and affordable” payments in each of the three preceding months.

Loan Consolidation

The DLSC's consolidation department works with student and parent borrowers who have consolidated their federal education loan repayments into one monthly payment. Borrowers can combine their Direct Loans, Federal Family Education Loan (FFEL) Program loans, and certain other federal education loans into Direct Consolidation Loans.

- ❖ While the LOC's consolidation department originates consolidation loans, the DLSC's consolidation department services them.



Take a Look

- See Chapter 2 for details about switching repayment plans.
- See Chapter 3 for details about borrowers with defaulted loans.



For Your Information

Certain borrowers are required to make payments under the Income Contingent Repayment Plan. These are borrowers repaying consolidation loans that include a previously defaulted loan. They may *not* switch their repayment plan unless specific requirements are met.



Take a Look

See Chapter 2 for details about Direct Consolidation Loans.



Where to Call

The phone number at the LOC for information about consolidation is 1-888-557-7392.

The phone number at the DLSC for information about consolidation is 1-800-848-0979.

Postponing Repayment—Deferment and Forbearance

During the repayment period, student and parent borrowers can ask the DLSC to allow them to postpone paying on a Direct Loan through a deferment or a forbearance.

- ◆ *Deferment* is a period of time during which repaying loan principal is temporarily postponed. If the loan is a Direct Subsidized Loan or Direct Subsidized Consolidation Loan, no interest is charged to the borrower while the loan is in deferment. On all other Direct Loans, interest is charged during deferment.
 - ◇ There are specific regulations that qualify a borrower for deferment.
 - ◇ A Direct Loan borrower qualifies for a deferment when he or she is:
 - ◆ enrolled at least half-time at an eligible school,
 - ◆ pursuing an eligible course of study in an eligible graduate fellowship program,
 - ◆ pursuing a rehabilitation training program for disabled individuals,
 - ◆ conscientiously seeking, but unable to find, full-time employment (not to exceed three years), or
 - ◆ experiencing, or will experience, economic hardship (not to exceed three years).
 - ◇ A Direct Loan borrower may be eligible for additional deferments if, at the time the borrower obtained his or her first Direct Loan, the borrower had an outstanding balance on a FFEL Program loan made before July 1, 1993.
- ◆ *Forbearance* is an arrangement to postpone or reduce the amount of a borrower's loan payment amount for a limited and specified period. During forbearance, interest is charged on all Direct Loans.
 - ◇ A Direct Loan borrower qualifies for forbearance when he or she is willing but unable to make scheduled loan payments. Forbearance can take one of two forms: either the borrower makes no payments, or the borrower makes smaller payments



Take a Look

See Chapter 2 for details about when deferment and forbearance may be granted



For Your Information

During delinquent-loan collection, the DLSC notifies borrowers about their deferment and forbearance options.

than originally scheduled. Forbearance is granted if the borrower:

- ◆ is unable to make scheduled payments due to poor health, temporary financial hardship, or other acceptable reasons,
- ◆ serves in a medical or dental internship or residency program,
- ◆ serves in a position under the National and Community Service Trust Act of 1993, or
- ◆ has a monthly debt burden for all federal Title IV student loans that equals or exceeds 20 percent of his or her total monthly gross income (not to exceed three years).

When interest is charged during deferment or forbearance periods, the borrower can choose to pay the interest during the period or have it capitalized (adding the unpaid interest to the principal balance) at the end of the period.

Borrowers apply for deferment or forbearance using ED forms they get from the DLSC, schools, or the DLSC's Web site.

- ◆ **Direct Loan Servicing Center.** Borrowers contact the DLSC and request a deferment form or a forbearance form. The DLSC enters borrower-specific information at the top of the form and, within three business days of receiving the request, sends the partially completed form to the borrower. The borrower completes the form and returns it to the DLSC.
- ◆ **Schools.** Many schools keep a supply of ED deferment forms and forbearance forms in the financial aid office. If a borrower uses a form that comes from a school aid office, he or she needs to fill in the borrower-specific information at the top of the form, complete the form, and send it to the DLSC.
- ◆ **DLSC's Web site.** Deferment forms and forbearance forms are posted on the DLSC Web site. A borrower needs to fill in the borrow-specific information at the top of the form and complete the form as instructed. The borrower then prints out the form and sends it to the DLSC.

Borrowers who apply for deferment or forbearance on a loan are responsible for providing the DLSC with all the information and documents needed to establish eligibility.



For Your Information

As of the 1998 amendments to the HEA, a forbearance period of up to 60 days may be granted when a borrower requests:

- a deferment,
- a forbearance,
- a repayment plan change, or
- a consolidation loan.

Interest that accrues during this period is *not* capitalized.



Take a Look

See Chapter 2 for details about capitalizing interest.



Where to Call

Borrowers can call the DLSC at 1-800-848-0979 to request deferment or forbearance forms.



Web Site

- <http://www.dlserver.ed.gov>



Where to Call

The phone number for the DLSC's delinquent accounts and collections department is 1-800-848-0981.



For Your Information

The 1998 amendments to the HEA changed the definition of default from 180 days delinquent to 270 days delinquent. As a result, delinquent accounts are now transferred to DCS when loans are 360 days delinquent. The transfer used to take place when loans were 270 days delinquent.



Take a Look

See Chapter 2 for details about discharging loans.

Once the DLSC receives a deferment form or a forbearance form and any accompanying documents, it reviews the form to make sure it is accurate and fully completed. If the DLSC needs additional information, it contacts the borrower.

The DLSC notifies the borrower whether a deferment or forbearance has been granted.

Delinquency and Default

As the payment center for the Direct Loan Program, the DLSC handles loan collection efforts on Direct Loans, including delinquent loans and defaulted loans. To help prevent borrowers from becoming delinquent or going into default, the DLSC offers information about and assistance with deferment, forbearance, and other repayment plan options.

- ◆ If a borrower is delinquent, loan collection efforts continue until:
 - ◆ the account is brought current,
 - ◆ deferment or forbearance is approved, or
 - ◆ the account is transferred to ED's Debt Collection Service (DCS) on day 360 of delinquency.

The DLSC also provides Direct Loan schools with a listing of borrowers who are delinquent on Direct Loans.

Discharged Loans

Direct Loans may be discharged (the borrower is released from the obligation of repaying a loan) for the following reasons:

- ◆ the borrower becomes totally and permanently disabled,
 - ◆ This cannot be for a condition that existed at the time the borrower applied for a loan, unless a doctor certifies that the condition substantially deteriorated after the loan was made.
- ◆ the borrower was unable to complete a course of study because the school closed or because the borrower's eligibility was falsely certified by the school,

- ❖ the borrower was entitled to have all or a portion of his or her Direct Loan proceeds refunded to the Direct Loan Program, but the school failed to do so,
- ❖ the borrower's obligation to repay a loan is discharged in bankruptcy (in rare cases), or
- ❖ the borrower dies.
 - ◇ In the case of a parent's Direct PLUS Loan, the loan is discharged if the student for whom the parent borrowed the loan dies *or* if the parent borrower dies.

A borrower may not avoid repaying loans because he or she did not complete the program of study (for reasons other than school closure or false certification of loan eligibility), did not like a school or program of study, or did not obtain employment after completing his or her studies.

The DLSC handles processing and paperwork for loans that are canceled or discharged.

Account Servicing Statements

The Direct Loan Servicing Center prepares and mails a variety of statements to student and parent borrowers to keep them updated on loan status.

Monthly Billing Statements

Borrowers may make their loan payments using a monthly billing statement mailed to them by the DLSC. Each monthly billing statement lists the current outstanding principal balance, current amount due, and any past due amounts.

Borrowers repaying loans may choose to receive a monthly billing statement or to have their payments transferred electronically through an electronic debit account (EDA).



Take a Look

See Chapter 2 for details about capitalizing interest.

Quarterly Interest Statements

During in-school, grace, deferment, and forbearance periods, the DLSC mails quarterly interest statements to all Direct Unsubsidized Loan borrowers. Similar statements are sent to Direct PLUS Loan borrowers during deferment and forbearance periods. Statements list the interest paid by the borrower during the last quarter, the interest accrued during the last quarter, and the outstanding principal balance. Borrowers are informed that they have the choice of paying accrued interest as it accumulates or postponing payment until later. Any accrued interest that is paid later will be capitalized (added to the principal balance at the end of the period).

Annual Statements

The DLSC prepares and mails an annual loan statement to every Direct Loan borrower. The annual statements provide the borrower's:

- ◆ account activity for the year (opening balance, payments and adjustments, new loans and interest, school adjustments, capitalized interest, and ending balance), as well as
- ◆ cumulative loan information (total amount of loans, adjusted loan amount, total principal paid, total interest paid, total school adjustments, total capitalized interest, total principal balance, and total charges paid).

Problems?

If a school has a problem or a complaint about the DLSC, its first step should be to contact the DLSC's school services department. If this doesn't prove satisfactory, the school contacts its regional Direct Loan Client Account Manager (CAM). The CAM researches the problem or complaint, follows up as needed, and works to resolve the issue.

- ❖ If a complaint says that DLSC collection activities are violating state or federal law, the DLSC halts collection on the account until the complaint is resolved.
- ❖ If the DLSC receives a complaint directly from a borrower, the DLSC sends a copy of the complaint to ED within three business days of receiving it.
 - ❖ Within five business days, the DLSC also sends ED a copy of its collection activity record on the account and any other relevant information ED needs to respond to the complaint.
 - ❖ Collection activity on the account isn't resumed until the complaint's resolution is approved by ED.



Where to Call

The phone number for the DLSC's school services department is 1-888-877-7658.



Take a Look

See Appendix A, page A-2, for a list of regional lead CAMs.

