

Participating in the Direct Loan Program

Chapter 4

Institutional Eligibility

Schools must meet certain basic eligibility requirements to be accepted into the Direct Loan Program and to continue participating. This section describes the minimum requirements. There are additional requirements for certain origination options, which are discussed later in this chapter.

Because negotiated rulemaking between ED and the postsecondary education community is under way, some of the processes described in this chapter may undergo major procedural changes in the latter part of 1999. Updates and changes will appear on the Direct Loan Web site and in ED mailings.

Basic Requirements

To be eligible for initial participation in the Direct Loan Program, a school must:

- ❖ meet all the Title IV federal student financial aid eligibility requirements that generally apply to schools, which are in the General Provisions regulations and the Higher Education Act of 1965, as amended (HEA),
- ❖ have a student loan Federal Family Education Loan (FFEL) Program cohort default rate of less than 25 percent for at least one of the three most recent fiscal years for which data are available, and
- ❖ not be subject to an emergency action or a proposed or final limitation, suspension, or termination (LS&T) action related to Title IV financial aid programs.



Take a Look

- Borrower eligibility is discussed in Chapter 5.
- See page 4-9 of this chapter for details about school origination options.



Web Site

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



Laws & Regulations

- 34 CFR 685.400
- 34 CFR 668
- HEA, Title IV, Section 435(a)



For Your Information

The following are exempt from the cohort default rate requirement: historically black colleges and universities (HBCUs), tribally controlled community colleges, and Navajo community colleges. However, based on the Higher Education Amendments of 1998, these schools must meet specific requirements that demonstrate their efforts to reduce their cohort default rates.



Take a Look

See Appendix E for details about ED's electronic requirements for schools.

A school must also meet ED's electronic capability requirements because the Direct Loan Program depends entirely on electronic processes. For example, Direct Loan schools must be able to exchange data with ED systems, including the Central Processing System (CPS), National Student Loan Data System (NSLDS), and Grant Administration and Payment System (GAPS), as well as with the Direct Loan Origination Center (LOC).

Once a school is accepted into the Direct Loan Program, it must:

- ❖ sign a Direct Loan amendment to its Title IV, HEA Program Participation Agreement (PPA) with the U.S. Department of Education (ED) and
- ❖ continue to meet all eligibility requirements.



Take a Look

See page 4-8 for a Direct Loan Enrollment Checklist.

Applying to Participate

It's easy for a school to notify ED that it wants to participate in the Direct Loan Program. This section offers a brief overview along with an at-a-glance school enrollment checklist that's designed to walk a school through the process.

School Starts the Process

To enroll in the Direct Loan Program, a school or its third-party servicer contacts ED by getting in touch with:

- ❖ a regional Direct Loan Client Account Manager (CAM),
- ❖ ED's Direct Loan Task Force at **202-708-9951**, or
- ❖ ED's Institutional Participation and Oversight Service's (IPOS's) Direct Loan School Selection Staff at **202-708-6103**.



Take a Look

See Appendix A for lead CAM contact information.

School Sends Letter

The school or its third-party servicer then sends the following information about the school to ED on official letterhead:

- ❖ name,
 - ❖ mailing address,
 - ❖ email address,
 - ❖ OPE ID number,
 - ❖ employer identification number (EIN),
 - ❖ Data Universal Numbering System (DUNS) number,
 - ❖ the president's or chief executive officer's (CEO's) name, address, telephone number, and fax number, and
 - ❖ the financial aid director's name, address, telephone number, and fax number.
- ❖ In the letter, the school also may request the origination option that it believes best serves its needs.

The school sends the letter to:

U.S. Department of Education
Institutional Participation and Oversight Service
Data Management and Analysis Division
Document Receipt and Control Center
P.O. Box 44805, L'Enfant Plaza Station
Washington, DC 20026-4805
(Attn: Direct Loan School Selection)

If the school is using overnight delivery or courier delivery, it sends the letter to:

U.S. Department of Education
Institutional Participation and Oversight Service
Data Management and Analysis Division
Document Receipt and Control Center
7th & D Streets, SW
GSA Building, Room 29497
Washington, DC 29497
(Attn: Direct Loan School Selection)



Take a Look

See page 4-9 for details about loan origination options.

Direct Loan Amendment

After receiving the school's information and determining the school is eligible, ED's Institutional Participation and Oversight Service (IPOS) sends a letter to the school with:

- ❖ the ED-approved origination option,
- ❖ two copies of the Direct Loan amendment (the amendment to the school's Title IV Program Participation Agreement) for the president or CEO to sign,
- ❖ a list of how to contact Client Account Managers (CAMs), and
- ❖ an origination options fact sheet.



Laws & Regulations

- 34 CFR 685.300(b)

By signing the Direct Loan amendment, the school agrees to:

- ❖ identify students eligible for financial aid,
- ❖ estimate their financial need,
- ❖ certify that borrowers have not exceeded annual or aggregate federal loan limits,
- ❖ provide timely and accurate information to ED,
- ❖ refrain from charging fees for loan origination activities or for providing Direct Loan information to students or parents,
- ❖ implement a quality assurance system, and
- ❖ comply with other provisions ED deems necessary to protect the interests of the United States and to promote the Direct Loan Program's purposes.



Take a Look

See page 4-9 for details about origination options.

IPOS is the entity within ED that determines a school's eligibility and the origination options available to it. For example, if a school is eligible to participate at Origination Option 2, the school will automatically be assigned Origination Option 2—unless it requested a lower origination option. The letter that accompanies the Direct Loan amendment goes into detail about this and explains how to request an origination option with less responsibility if one is available to the school.

The school's president or CEO signs and returns both copies of the Direct Loan amendment to IPOS at:

U.S. Department of Education
Institutional Participation and Oversight Service
Data Management and Analysis Division
Document Receipt and Control Center
P.O. Box 44805, L'Enfant Plaza Station
Washington, DC 20026-4805
(Attn: Direct Loan School Selection)

If the school is using overnight delivery or courier delivery, it sends the letter to:

U.S. Department of Education
Institutional Participation and Oversight Service
Data Management and Analysis Division
Document Receipt and Control Center
7th & D Streets, SW
GSA Building, Room 29497
Washington, DC 29497
(Attn: Direct Loan School Selection)

Once IPOS receives the two copies of the signed Direct Loan amendment, an IPOS representative countersigns. One copy is returned to the school for its records; IPOS keeps the other copy of the amendment for its records.

Banking Forms

Next, a school receives a letter from the Direct Loan Branch of ED's Accounting and Financial Management Service (AFMS) that contains banking forms needed for ED to conduct electronic funds transfers (EFTs) of Direct Loan funds to the school:

- ❖ an authorization for deposit form,
- ❖ a direct-deposit form for new accounts established for only Direct Loan funds, and
- ❖ a central drawdown form.



Take a Look

See Appendix A, page A-3, for AFMS contact information.

The appropriate school official completes and returns the forms. The school returns the forms to:

U.S. Department of Education
Accounting and Financial Management Service
ROB-3, Room 5125
400 Maryland Avenue, SW
Washington, DC 20202-5455

A school can't receive Direct Loan funds until ED receives these forms.

Welcome Package

At this point, ED assigns a Direct Loan Client Account Manager (CAM) to contact the school. The CAM provides the school with a welcome package and start-up assistance if the school requests it. The CAM also works with the school on an ongoing basis to assure that it successfully implements and administers the Direct Loan Program.

The welcome package consists of:

- ◆ a cover letter, which includes the school's official Direct Loan start date,
- ◆ process flowcharts that show how data are exchanged among the school and ED's systems, and
- ◆ important Direct Loan publications, such as Direct Loan Bulletins, a list of Direct Loan regulations, and this guide.

The welcome package also contains information about the Title IV Wide Area Network.

Title IV Wide Area Network

Part of the success of the Direct Loan Program for students and schools is a school's ability to communicate electronically with ED. To exchange information electronically, the school must use ED's Title IV Wide Area Network, also called Title IV WAN or TIV WAN, by completing and returning a TIV WAN enrollment agreement for Direct Loans.

Information on how to enroll and where to send enrollment information is in "Dear Colleague" Letter GEN-98-24 (Action Letter #4). The form to sign up for TIV WAN is also available on ED's Information for Financial Aid Professionals (IFAP) Web site.

TIV WAN is the electronic pathway that schools and ED use to exchange information about students who apply for and receive financial aid.

TIV WAN provides a link between schools and the ED systems already mentioned in this chapter, such as the CPS, NSLDS, and GAPS, as well as the Direct Loan Origination Center (LOC).

Schools entering the Direct Loan Program must designate a TIV WAN destination point to transmit and receive Direct Loan data. A school can establish itself as the destination point, or it may designate a third-party servicer. If it chooses, a school can have more than one destination point.

Destination points must be identified on a school's Title IV WAN enrollment agreement, transmissions, billings, password changes, and so on.

Testing

When a school signs up for the Direct Loan Program, the LOC forwards an electronic testing packet and calls the school to set up a testing schedule. The testing consists of transmitting test files to be sure the school's systems interface successfully with the LOC's. Once the testing is successfully completed, the school is ready to begin participating in the Direct Loan Program.

Reference

- "Dear Colleague" Letter GEN-98-24

Web Site

- <http://ifap.ed.gov>

For Your Information

For questions about a Title IV WAN enrollment agreement, transmissions, billings, password changes, and so on, call Title IV WAN customer service at 1-800-615-1189.

For Your Information

ED is in the process of replacing TIV WAN with a Student Aid Internet Gateway (SAIG). ED will notify schools as the transfer proceeds.

Direct Loan Enrollment Checklist

School begins the process

- To express an interest in participating, the school contacts one of the following:
 - a regional Direct Loan Client Account Manager (CAM),
 - ED's Direct Loan Task Force (202-708-9951), or
 - ED's Institutional Participation and Oversight Service's (IPOS's) Direct Loan School Selection Staff (202-708-6103)
- School or its third-party servicer then provides basic information on official letterhead:
 - School name, mailing address, and email address,
 - OPE ID number, EIN, and DUNS number,
 - President or CEO's name, address, telephone number, and fax number
 - Financial aid director's name, address, telephone number, and fax number
 - The school may request the origination option it feels will best serve its needs
- The school or its third-party servicer sends the information to:
 - U.S. Department of Education
 - Institutional Participation and Oversight Service
 - Data Management and Analysis Division
 - Document Receipt and Control Center
 - P.O. Box 44805, L'Enfant Plaza Station
 - Washington, DC 20026-4805
 - (Attn: Direct Loan School Selection)

ED sends a letter that includes two copies of the Direct Loan amendment to the school's Program Participation Agreement (PPA) and what the school's loan origination level will be

- School president or CEO signs and returns both copies of the amendment to the address given above

Once ED receives the signed Direct Loan amendment, someone from IPOS countersigns, and one copy is returned to the school for its records

- The Direct Loan branch of ED's Accounting and Financial Management Service (AFMS) sends a letter that includes:
 - Authorization for deposit form
 - Direct-deposit form for new accounts established for only Direct Loans
 - Central drawdown form
- The appropriate school official completes and returns the forms to:
 - U.S. Department of Education
 - Institutional Participation and Oversight Service
 - Data Management and Analysis Division
 - Document Receipt and Control Center
 - P.O. Box 44805, L'Enfant Plaza Station
 - Washington, DC 20026-4805
 - (Attn: Direct Loan School Selection)
- School or its third-party servicer completes a Title IV WAN (TIV WAN) agreement for Direct Loans
- The Direct Loan Origination Center (LOC) contacts the school or its third-party servicer to set up electronic testing and sends a testing packet

School Origination Options

IPOS assigns an initial loan origination option when it approves a school for the Direct Loan Program. The school's origination option determines which functions the school performs and which functions the Direct Loan Origination Center (LOC) performs in the Direct Loan process.

There are three loan origination options:

- ❖ Standard Origination,
- ❖ Origination Option 1, and
- ❖ Origination Option 2.

Standard Origination

Any school approved by ED to participate in the Direct Loan Program may participate as a Standard Origination school. At this option, responsibilities and control are shared between the school and the LOC.

The school is responsible for:

- ❖ creating loan origination records,
- ❖ transmitting loan origination records to the LOC,
- ❖ receiving Direct Loan funds from GAPS,
- ❖ disbursing funds to borrowers,
- ❖ creating disbursement records,
- ❖ transmitting disbursement records to the LOC, and
- ❖ performing reconciliation.

The LOC is responsible for:

- ❖ preparing promissory notes,
- ❖ obtaining completed and signed promissory notes from borrowers,
- ❖ calculating the school's need for Direct Loan funds,



Laws & Regulations

- 34 CFR 685.102(b)



From the Archives

- Standard Origination was formerly called Alternate Origination and Level 3.
- Origination Option 1 was formerly called Level 2.
- Origination Option 2 was formerly called Level 1.

- ❖ requesting Direct Loan funds from GAPS on behalf of the school, and
- ❖ sending Anticipated Disbursement Rosters and Actual Disbursement Rosters to the school.

Origination Option 1

An Origination Option 1 school performs more functions than a Standard Origination school (for instance, it handles promissory notes), but the LOC still controls requesting funds for disbursement.

Specifically, Origination Option 1 schools are responsible for:

- ❖ creating loan origination records,
- ❖ transmitting loan origination records to the LOC,
- ❖ preparing promissory notes,
- ❖ obtaining completed and signed promissory notes from borrowers,
- ❖ sending completed and signed promissory notes to the LOC,
- ❖ receiving Direct Loan funds from GAPS,
- ❖ disbursing funds to borrowers,
- ❖ creating disbursement records,
- ❖ transmitting disbursement records to the LOC, and
- ❖ performing reconciliation.

The LOC is responsible for:

- ❖ calculating the school's need for Direct Loan funds,
- ❖ requesting Direct Loan funds from GAPS on behalf of the school, and
- ❖ sending Anticipated Disbursement Rosters and Actual Disbursement Rosters to the school.

Origination Option 2

An Origination Option 2 school has the most responsibilities—including handling promissory notes and requesting funds for disbursement. An Origination Option 2 school has authority for:

- ❖ creating loan origination records,
- ❖ transmitting loan origination records to the LOC,
- ❖ preparing promissory notes,
- ❖ obtaining completed and signed promissory notes from borrowers,
- ❖ sending completed and signed promissory notes to the LOC,
- ❖ calculating the school's need for Direct Loan funds,
- ❖ requesting Direct Loan funds from GAPS,
- ❖ receiving Direct Loan funds from GAPS,
- ❖ disbursing loan funds to borrowers,
- ❖ creating disbursement records,
- ❖ transmitting disbursement records to the LOC, and
- ❖ performing reconciliation.

The LOC isn't required to perform any of these processing functions, although Origination Option 2 schools can choose to have the LOC take on certain functions for them.



Take a Look

See page 4-13 of this chapter for details about LOC choices that Origination Option 2 schools have.

Direct Loan Origination Options			
Responsibility	Standard Origination	Origination Option 1	Origination Option 2
Create loan origination records	✓	✓	✓
Transmit loan origination records to LOC	✓	✓	✓
Prepare promissory note	LOC	✓	✓
Obtain completed/signed promissory note	LOC	✓	✓
Send promissory note to LOC	n/a	✓	✓
Calculate need for Direct Loan funds	LOC	LOC	✓
Request Direct Loan funds from GAPS	LOC	LOC	✓
Receive funds from GAPS	✓	✓	✓
Disburse loan funds to borrowers	✓	✓	✓
Create disbursement records	✓	✓	✓
Transmit disbursement records to LOC	✓	✓	✓
Perform reconciliation	✓	✓	✓

Legend	✓	= school's responsibility
	LOC	= Loan Origination Center's responsibility
	n/a	= not applicable

Initial Origination Level



Laws & Regulations

- 34 CFR 685.402(a)(1)

As noted earlier, as part of the approval process for a school to take part in the Direct Loan Program, ED decides on a school's initial origination level. Generally this level is assigned for at least the first year in the program.

- ◆ Any approved school is automatically eligible to be a Standard Origination school.
- ◆ But, to participate at Origination Option 1 or Origination Option 2, a school has to meet criteria in addition to the minimum eligibility requirements.

Origination Option 1 and Origination Option 2

Schools that meet the following criteria are eligible to participate as Origination Option 1 or Origination Option 2 schools.

- ❖ In the three most recent years, the school must have participated in the Federal Perkins Loan Program or the Federal Pell Grant Program. Graduate and professional schools that do not administer these programs must have participated in a similar program, such as the Health Professions Student Loan Program or the Nursing Student Loan Program.
- ❖ The school cannot be on the reimbursement payment method for receiving Federal Pell Grant Program or Federal Supplemental Educational Opportunity Grant (FSEOG) funds.
- ❖ The school cannot be overdue on submitting its program, financial, and audit reports to ED.
- ❖ The school cannot have any serious performance deficiencies for any federal student aid program. This includes not having any deficiencies revealed by audits and program reviews that have taken place in the five calendar years immediately preceding the date the school applied to participate in the Direct Loan Program.
- ❖ The school has to be financially responsible according to standards set in Title IV General Provisions regulations.
- ❖ The school must be current on its federal cash transaction reports and may not have a final determination of cash on hand that exceeds immediate need for Title IV funds.
- ❖ In general, the school cannot be delinquent on an outstanding debt to any agency in the federal government, unless the school has made satisfactory repayment arrangements with the federal government.

Changing Origination Option Level

Although regulations allow schools to request a decrease in origination option at any time, generally, after a year in the Direct Loan Program, a school can request that ED increase or decrease its origination option. It's best to switch plans at the beginning of an award year because switching during the award year can cause operational problems.



Laws & Regulations

- 34 CFR 685.402(a)(2)



Laws & Regulations

- 34 CFR 668.15
- 34 CFR 688, Subpart L



Laws & Regulations

- 34 CFR 685.402(b)

To request an increase or decrease in its origination option or reduce its responsibilities, a school must send its request to ED in writing. If the school is decreasing its origination option, it should include the date it would like the change to become effective.

The school sends its request to:

U.S. Department of Education
Institutional Participation and Oversight Service
Data Management and Analysis Division
Document Receipt and Control Center
P.O. Box 44805, L'Enfant Plaza Station
Washington, DC 20026-4805
(Attn: Direct Loan School Selection)

If the school is using overnight delivery or courier delivery, it sends the letter to:

U.S. Department of Education
Institutional Participation and Oversight Service
Data Management and Analysis Division
Document Receipt and Control Center
7th & D Streets, SW
GSA Building, Room 29497
Washington, DC 29497
(Attn: Direct Loan School Selection)

ED acknowledges the school's request in writing. If the request is approved, the acknowledgment includes the effective date for the change as well as a document called "Statement of Origination." This document lists the school's new responsibilities under its new origination level. (It is not necessary for a school to sign a new Direct Loan amendment after being assigned a new origination level.)

Decrease Option Level

An Origination Option 1 school or Origination Option 2 school can choose to participate at an option level with fewer responsibilities. A school can request a decrease in its Direct Loan responsibilities at any time.



Laws & Regulations

- 34 CFR 668.402(b)(2)(i)

Example

A school that qualifies to participate at the Origination Option 1 level might decide that its financial aid office staff isn't large enough to handle the promissory note process without creating administrative burden.

This school has the choice of becoming a Standard Origination school, which means that the LOC:

- ✓ will prepare the promissory notes,
- ✓ send the notes to the school's borrowers, and
- ✓ collect the completed and signed promissory notes directly from the borrowers.

An Origination Option 2 school can choose, for whatever reason, to operate as a Standard Origination or Origination Option 1 school.

Reduce Responsibilities

Variations within the same origination option are also possible for Origination Option 1 schools and Origination Option 2 schools. Because this allows a school to tailor Direct Loan processing to fit its specific administrative needs, the school doesn't have to move entirely from one origination level to another. In these cases, the set of Direct Loan responsibilities becomes a menu from which the school has considerable choice.

Example

An Origination Option 2 school's computer center is too busy to be timely in preparing borrowers' promissory notes. But the school doesn't want to move entirely to Origination Option 1 because it wants to keep close track of when borrowers return their promissory notes.

- ✓ The school can arrange to have the LOC prepare the promissory notes and forward the notes to the school.
- ✓ The school remains responsible for (and in control of) sending the promissory notes to borrowers, collecting the completed and signed promissory notes, and forwarding the notes to the LOC.

Origination Option 1 schools and Origination Option 2 schools can reduce their responsibilities at any time. Please note, however, that switching options during the award year can cause operational problems. It's best to switch at the beginning of an award year.



Laws & Regulations

- 34 CFR 685.402(b)

Increase Option Level

Standard Origination schools and Origination Option 1 schools may apply to participate at an origination option with more responsibility and control.

- ❖ Usually, the earliest a school can make the request is one year after participating at the ED-assigned initial origination level. ED bases its decision on the school's prior-year performance, as well as regulatory criteria.
- ❖ If ED agrees to the increased level, it assigns an effective date.

Management Considerations

Deciding Which Origination Option is Best

When a school applies to participate in the Direct Loan Program, it can tell ED which loan origination option best suits its needs. To do so, it is important that a school understands the responsibilities associated with each loan origination option and that it decide how much responsibility and control it wants over Direct Loan processing. The school then can examine its resources and capabilities to adequately assess the origination option that best suits it. Remember, however, that ED determines what a school's initial origination option will be.

When considering origination options, a school should keep in mind:

- ❖ service to students,
- ❖ organization,
- ❖ staffing levels,
- ❖ computer systems,
- ❖ resources and commitment, and
- ❖ outsourcing.

A questionnaire beginning on the next page helps a school examine each of these areas.

Direct Loan Considerations for Participation Questionnaire

Student Customer Service

What origination option would best serve the school's students?

To what extent does the school want to participate in the Direct Loan Program?

Does the school want to transition completely to the Direct Loan Program?

Does the school want to offer both Direct Loans and FFEL Program loans?

If the school decides to offer loans from both programs, how does it plan to do so?

Will students get to choose which program they want to borrow from?

Will Direct Loans be available to certain classes, such as incoming students or graduate students?

Organization

Which offices will be involved in administering the Direct Loan Program?

- Financial Aid Office?
- Business Office?
- Registrar's Office?
- Computer Center?
- Other?

How will the responsibilities be divided among the offices?

Staffing

Are the staffing levels of the offices involved sufficient to provide such service?

continued...

Direct Loan Considerations for Participation Questionnaire (cont'd)

Staffing (cont'd)

For which origination option is staffing sufficient?

Standard Origination?

Origination Option 1?

Origination Option 2?

Computer Systems

Does the school meet ED's electronic capability requirements?

Will the school dedicate computer time and personnel to implement and maintain the Direct Loan Program?

What computer environment should the school choose to administer the Direct Loan Program?

A PC environment using EDExpress software or vendor software?

Custom mainframe environment?

Combination of mainframe and PC?

How will the school network its computers so that:

the school can easily import and export Direct Loan data to and from ED?

the offices administering the Direct Loan Program have ready and appropriate access to information?

Resources and Commitment

If the staffing is not adequate for the desired origination option, does the school have the resources and the commitment to increase staff size?

If computer systems and support are not adequate, does the school have the resources and commitment to enhance its computer systems and provide support?

Outsourcing

Should the school consider contracting with a third-party servicer?

Software Implementation Options

ED designed flexibility into the Direct Loan Program's electronic processes. As a result, a school can set up its database and systems to best suit its individual operational environment. Specifically, a school can choose from among the following software implementation options.

- ❖ ED's free PC-based EDExpress software,
- ❖ school-developed software using ED's specifications,
- ❖ commercial software package with a Direct Loan module,
- ❖ EDExpress in combination with the school's software, or
- ❖ consortium-selected software.



Take a Look

See Appendix A for customer service contact information.

100 Percent Participation vs. Partial Participation

In addition to considering origination options, a school needs to determine if it wants to participate fully in the Direct Loan Program. In other words, should all students receive Direct Loans? Or should some of the school's students receive Direct Loans and some receive Federal Family Education Loan (FFEL) Program loans? Keep in mind that a student cannot receive both types of loans for the same loan period, but a school can participate in both programs.

Example

Unlimited Heights University has decided to phase in the Direct Loan Program. As a result, in its first year of participation, only freshmen and graduate students will borrow Direct Loans. In the second year, freshmen, sophomores, and graduate students will borrow Direct Loans. The phase in will continue until Unlimited Heights reaches 100 percent participation in the Direct Loan Program.

Training

Direct Loan Program training sessions give schools a chance to learn, ask questions, and make decisions about participating in the program. They also offer opportunities for Direct Loan school staff members to meet with each other and discuss program operations.

ED offers workshops each year throughout the country, such as two-day workshops on how to use EDEExpress. EDEExpress is ED's free PC software application that helps schools manage the Direct Loan Program, as well as other Title IV programs. Other national training opportunities include one-day Direct Loan Overview workshops and one-day Direct Loan Reconciliation workshops. In addition, ED sponsors a Direct Loan conference each spring.

A school's CAM can provide detailed information on upcoming Direct Loan training and can provide tailored training to meet an individual school's needs. Training opportunities also can be found on ED's Information for Financial Aid Professionals (IFAP) Web site.



Web Site

- <http://ifap.ed.gov>



Laws & Regulations

- 34 CFR 685.300(b)(9)



Web Site

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



Take a Look

See Appendix D for a copy of the *Direct Loan Quality Assurance Planning Guide*.

Quality Assurance System

By signing the Direct Loan amendment, a participating school is required to have a quality assurance (QA) system for its Direct Loan Program operations. Each school decides for itself how it ensures data accuracy, internal consistency, timeliness, and effective management procedures. Approaches vary from school to school, depending on the size of the student body, staffing, and degree of automation.

ED does not have specific QA requirements that schools must follow. Each Direct Loan school, however, must:

- ◆ establish its own QA system and
- ◆ document its QA activities in a central master file at the school.

To assist schools with this requirement, ED has published the *Direct Loan Quality Assurance Planning Guide*, which is available at ED's Direct Loan Web site. It is an *optional* technical assistance document that presents a five-step QA model plus management assessment worksheets.

A QA system helps create a smooth transition to the Direct Loan Program, ensures program integrity and effective stewardship, and maximizes service to students. The reason: QA approaches are designed to anticipate problems that might occur and to identify actual problems early. As a result, a quality assurance system can reduce the number and severity of problems that might occur as a school implements the Direct Loan Program. This gives a school a framework for developing Direct Loan procedures that are tailored to its resources, organizational structure, and students' needs.

Quality assurance has the concept of continuous improvement as its basis. It uses the following five steps, which are progressive and interrelated:

- ❖ strategic planning,
- ❖ employee involvement,
- ❖ structured problem solving,
- ❖ performance measures, and
- ❖ corrective action.

Whether a school's QA system is automated or depends on less high-tech methods is not as important as making sure it works. A crucial strategy for maintaining consistent data campus-wide is to create ongoing cooperation and coordination among the offices involved in administering the Direct Loan Program.

With a QA system, offices and staff members get together to:

- ❖ identify tasks,
- ❖ create procedures,
- ❖ assign responsibility,
- ❖ monitor the process, and
- ❖ make changes accordingly.

As noted earlier, a school may create its own quality assurance system. Or it may meet the QA system requirement by using one of these options:

- ❖ participating in ED’s Quality Assurance Program (QAP),
- ❖ completing the Direct Loan management assessment in the appendix of the *Direct Loan Quality Assurance Planning Guide* and taking corrective actions (as needed),
- ❖ completing the Title-IV-wide management assessment in the *Direct Loan Quality Assurance Planning Guide* and taking corrective actions (as needed),
- ❖ running the measurement tools function in EDEExpress software and assessing the results to take corrective actions (as needed),
- ❖ using the *Self-Assessment Guide* produced by the National Association of Student Financial Aid Administrators (NASFAA), or
- ❖ using any comparable quality assurance methodology or analysis.

Ordering Publications and Supplies

Schools can order free Direct Loan Program publications and supplies (including loan counseling materials, booklets, brochures, and promissory notes) from the LOC. They can be ordered by:

- phone:** 1-800-848-0978;
- fax:** 1-800-557-7398;
- email:** loan_origination@mail.eds.com; or
- mail:** U.S. Department of Education
Loan Origination Center
P.O. Box 5692
Montgomery, AL 36103-5692



Take a Look

See Appendix A for a list of available Direct Loan publications.

Consortia

Schools may participate in the Direct Loan Program through a consortium arrangement.

A consortium is a group in which each school may perform certain school-based loan origination functions, but only one school communicates with ED for all schools in the group.

Each school in the consortium must be eligible to participate in the Direct Loan Program, must sign an individual Direct Loan amendment, and must meet the criteria to originate loans at the chosen level of participation. Each school must participate at the same origination level, and each is responsible for the information it supplies through the consortium's lead school.

A consortium arrangement can reduce individual efforts by each school and conserve resources.

Example

A group of small schools with similar missions and populations operate financial aid programs manually. After forming a consortium, they develop one of the schools as a “site” or “destination” for all computer activity associated with the Direct Loan Program.

Third-Party Servicers

Schools may use third-party servicers to help operate the Direct Loan Program. All requirements in General Provisions regulations on contracting with third-party servicers apply.

- ◆ A school must notify ED if it significantly modifies a contact with an existing third-party servicer or enters into a new contract with a third-party servicer.



Laws & Regulations

- 34 CFR 685.102(b)
- 34 CFR 685.402(d)



Laws & Regulations

- 34 CFR 668.25



Laws & Regulations

- 34 CFR 685.307

- ❖ The notification must be within ten days of the change or action.
- ❖ On school letterhead, the school should give the name and address of the servicer and state the change or action. Notification should be sent to:

U.S. Department of Education
Institutional Participation and Oversight Service
P.O. Box 44805
L'Enfant Plaza Station
Washington, DC 20026-4805

Withdrawing from the Direct Loan Program

A school may withdraw from the Direct Loan Program at any time. And ED may initiate a school's withdrawal from the Direct Loan Program if there are performance or eligibility problems.

If a school decides to withdraw from the program, it sends a letter to ED on official school letterhead that:

- ❖ states it wants to withdraw from the program,
- ❖ requests a specific date it would like the withdrawal to become effective, and
- ❖ if it wishes, gives the reason(s) the school wants to withdraw from the program.

The school sends the letter to:

U.S. Department of Education
Institutional Participation and Oversight Service
Data Management and Analysis Division
Document Receipt and Control Center
P.O. Box 44805, L'Enfant Plaza Station
Washington, DC 20026-4805
(Attn: Direct Loan School Selection)

If the school is using overnight delivery or courier delivery, it sends the letter to:

U.S. Department of Education
Institutional Participation and Oversight Service
Data Management and Analysis Division
Document Receipt and Control Center
7th & D Streets, SW
GSA Building, Room 29497
Washington, DC 29497
(Attn: Direct Loan School Selection)

To allow time to reconcile cash, the school must give ED 60 days notice that it intends to withdraw from the Direct Loan Program.

To complete the withdrawal process, the school must conduct closeout audits (Title IV audits) and a final reconciliation of Direct Loan funds. Final reconciliation includes submitting all disbursement records and returning excess cash.

