

CHAPTER 9

DIRECT LOAN SERVICING CENTER RESPONSE AND SUPPORT

Essential Questions

- ❖ What functions does the Direct Loan Servicing Center perform for 1996-97?
- ❖ What kinds of communications to borrowers does the Servicing Center provide?
- ❖ How do I get assistance with deferment and forbearance for my students?
- ❖ How can I contact the Direct Loan Servicing Center?
- ❖ How long will it take the Servicing Center to perform its tasks?
- ❖ How does my school lodge a complaint about, or a compliment for, the Servicing Center's performance?

General Information

The Department of Education, through the Direct Loan Servicing Center, performs a range of functions from origination to servicing and collection. Servicing and collection activities, similar to those lenders perform in the Federal Family Education Loan (FFEL) Program, are

- ❖ processing school and borrower inquiries, documenting adjustments, and preparing correspondence
- ❖ maintaining borrower and loan data, including all changes, corrections, additions, and deletions to the data
- ❖ reconciling cash balances and loan detail with schools
- ❖ applying accrued interest and fees and maintaining borrower account balances

- ❖ supporting entrance and exit interviews
- ❖ recording all payments received daily and applying payments to borrower accounts
- ❖ tracking payments and researching unapplied payments
- ❖ tracking loans through in-school and in-grace periods and converting loans to repayment status
- ❖ processing deferment and forbearance requests
- ❖ collecting loans, including billing, letter writing, telephoning, skip tracing, and borrower tracking activities
- ❖ maintaining audit trails
- ❖ providing required accounting support
- ❖ answering inquiries from the Department and participating schools
- ❖ providing for standard and ad-hoc reporting needs
- ❖ interfacing with other systems, as required

Many schools are familiar with these operations under the current FFEL Program. Several activities are worthy of special discussion, however, because they apply directly to borrowers and schools.

Student Service Features

The school is the borrower's primary contact up to the time Direct Loan funds are disbursed. At that point, the Servicing Center notifies the borrower of the booked loan and begins a relationship that will continue until the borrower fully repays the loan.

The Servicing Center's first communication with the borrower occurs after the loan has been booked. Additional communication occurs throughout the repayment period. The Servicing Center also provides the borrower with contacts and telephone numbers in case the he or she has questions about the loan or its provisions.

Addresses and Toll-Free Number

The Department maintains a toll-free telephone number and a special mailing address at the Servicing Center to support borrower inquiries. This information is provided in communications to the borrower.

Standard Communications

Most of the Servicing Center's communications with the borrower will fall into one of the following categories: loan issuance notification; deferment and forbearance assistance; and account servicing documents such as monthly billings, quarterly statements, coupon books, and annual statements.

Loan Issuance Notification

Through the loan disbursement record, the school notifies the Direct Loan Servicing Center of each loan disbursement made to a borrower. Within 10 business days of receiving this record, the Loan Origination Center will contact the borrower at his or her permanent address. The communication to the borrower will include

- ◆ a redisclosure of the loan amount, the amount disbursed to date, and the loan's terms
- ◆ the name of the office to contact if the borrower did not receive the loan proceeds or if the borrower has questions

Deferment and Forbearance Assistance

After the beginning of the repayment period, the borrower may request that loan repayments be deferred (temporarily postponed, and for Direct Subsidized Loans, no interest charged) or forbore (temporarily postponed or reduced but interest charged during authorized periods).

The Servicing Center will notify the borrower of deferment and forbearance options when sending the borrower a repayment schedule and when beginning delinquent loan collection for the borrower, if that procedure is necessary. The notification will describe the borrower's options and provide a telephone number or address for further assistance.

- ◆ The borrower may request deferment/forbearance forms by telephone from the Servicing Center, which tracks all deferment and forbearance requests from a borrower. The Servicing Center completes the borrower-specific

information at the top of the forms and sends them to a borrower within three business days of receiving the request.

- ❖ A supply of deferment and forbearance forms will also be available at schools. The borrower must complete the borrower-specific information at the top of the forms.
- ❖ The Servicing Center reviews deferment and forbearance forms for completeness and accuracy and may contact the borrower to offer assistance in completing the forms.
- ❖ The borrower must give the Servicing Center the information and documents necessary to establish eligibility for a specific type of deferment or forbearance. The Servicing Center acts on all deferment and forbearance requests within 10 business days of obtaining all necessary information.
- ❖ The Servicing Center negotiates deferments and forbearances to meet borrower needs while maintaining compliance with the law and regulations.

Deferments

All Direct Loan borrowers are entitled to the same deferments as new FFEL Program borrowers. Deferments are authorized during any period when the borrower is

- ❖ enrolled at least half-time at an eligible school
- ❖ pursuing a course of study under 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)
- ❖ experiencing, or will experience, economic hardship (not to exceed three years)

Additionally, Direct Loan borrowers who have an outstanding balance on an FFEL Program loan (made before July 1, 1993) at the same time they obtain a Direct Loan are eligible for all the deferments available for the FFEL Program loan. The Department's entrance and exit counseling materials (see Chapter 3) list these additional deferments.

Forbearance

A forbearance may be granted when the borrower is willing but unable to make scheduled payments. Forbearance can take the form of several options: The borrower makes no payments, receives an extension of time for making payments, or makes smaller payments than originally scheduled.

Forbearance will also be granted if the borrower

- ❖ experiences financial hardship or illness
- ❖ serves in a medical or dental internship or residency program
- ❖ serves in a position under the National and Community Service Trust Act of 1993
- ❖ 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)

Annual Statements

Each January, the Servicing Center prepares and sends to every borrower an annual statement containing data for the previous 12 months. (For 1996-97, mailings will begin in January 1997 and will be spread out over a six-week period. The statements will contain data covering January 1, 1996 through December 31, 1996.)

At a minimum, the annual statement includes the following:

- ❖ borrower identification number
- ❖ borrower name and address
- ❖ period covered by statement
- ❖ beginning account balance of all the borrower's open Direct Loans
- ❖ account activity for the year
- ❖ ending account balance
- ❖ toll-free customer service telephone number

The statement will also include any additional information needed for adequate reporting as required by the Department.

Endorsers will be sent annual statements only for loans delinquent 60 days or more.

School Service Features

The Direct Loan Servicing Center will also assist schools with specific functions:

- ◆ Support entrance counseling—at a school's request, the Servicing Center will distribute entrance counseling materials for Direct Subsidized and Unsubsidized Loan borrowers. (See Chapter 3 for a description of these materials.)
- ◆ Support exit interviews—again, at a school's request, the Servicing Center will distribute exit counseling materials and can provide a printout of all the borrower's loans—that is, for each Direct Subsidized, Unsubsidized, and in-school Direct Consolidation Loan. Schools can use this borrower-specific information when counseling students about how much they will owe.
 - The Servicing Center will contact schools to determine whether they want to receive borrower-specific disclosure statements and, if so, will send the statements based on the borrower's anticipated graduation date. Schools will receive the statements in sufficient time to conduct exit interviews.
 - Exit counseling materials will reinforce borrowers' understanding of their repayment options and their Direct Loan obligations.

Addresses and Toll-Free Numbers

The Department maintains toll-free telephone numbers and special mailing addresses for the School Relations section, whose sole function is to support schools' inquiries.

As this publication went to press, the School Relations team was located in Utica, New York; however, it was expected that by March 1997, the team would be in Montgomery, Alabama. Therefore, we are providing both sets of telephone numbers and addresses.

- ◆ Schools send paper Direct Subsidized and Unsubsidized Loan promissory notes, Direct PLUS application/promissory notes, and other origination materials to

Utica

School Relations

Direct Loan Servicing Center
P.O. Box 7201
Utica, NY 13504-7201

Montgomery

School Relations

Loan Origination Center
P.O. Box 5692
Montgomery, AL 36103-5692

or, for non U.S. Postal Service direct deliveries, to

School Relations

Direct Loan Servicing Center
501 Bleecker Street
Utica, NY 13501-2401

School Relations

Loan Origination Center
474 Southcourt Street, Suite 500
Montgomery, AL 36104

- ◆ Borrowers associated with Standard Origination schools send paper promissory notes and Direct PLUS application/promissory notes to

Utica

School Relations

Direct Loan Servicing Center
P.O. Box 7201
Utica, NY 13504-4639

Montgomery

Applicant Services

Loan Origination Center
P.O. Box 5691
Montgomery, AL 36103-5691

or, for non U.S. Postal Service direct deliveries, to

School Relations

Direct Loan Servicing Center
501 Bleecker Street
Utica, NY 13501-2401

Applicant Services

Loan Origination Center
474 Southcourt Street, Suite 500
Montgomery, AL 36104

- ◆ School Relations toll-free number, for ordering bulk materials and Direct Loan school inquiries:

1 (800) 848-0978 **At the time of publication, this number was to stay as is.**

◆ School Relations fax number:

Utica

1 (800) 848-0984

Montgomery

1 (800) 557-7396

◆ TDD (for the hearing-impaired **only**)

Utica

1 (800) 848-0983

Montgomery

1 (800) 557-7395

Loan Origination/Servicing Center Response Summary

The following chart outlines various Loan Origination Center /Servicing Center functions and turnaround times for those functions.

Loan Origination/ Servicing Center Turnaround Times

Origination Functions	Turnaround
<ul style="list-style-type: none"> • Determine parent eligibility for Direct Loan • Edit and validate electronically transmitted loan data • Transmit to school electronic file of processing results of daily loan data transactions 	<ul style="list-style-type: none"> • 5 business days of receipt of PLUS application/ promissory note • 1 business day of receipt • By noon of day after validating day's loan record submission
Promissory Note Functions	Turnaround
<ul style="list-style-type: none"> • Ship printed promissory notes to school • Notify school of promissory note shipment via confirmation letter • Transmit notice of incomplete or altered promissory notes to school • Transmit notice of applicant approval and promissory note to school 	<ul style="list-style-type: none"> • 3 business days of request • 5 business days of shipment • 3 business days of receipt • 3 business days of record payroll
Disbursement/Reconciliation Functions	Turnaround
<ul style="list-style-type: none"> • Edit and validate electronic disbursement records • Notify borrower of loan booking and redisclose terms • Transmit discrepancy report on unbooked loan to school • Notify school of late reconciliation data • Cancel a booked loan 	<ul style="list-style-type: none"> • 1 business day of receipt • 10 business days of receipt of each disbursement record • 60 business days of receipt of promissory note • 5 business days of reconciliation date • 5 business days of cancel notice
General Functions	Turnaround
<ul style="list-style-type: none"> • Respond to customer telephone inquires • Respond to customer mail inquiries • Initiate appropriate servicing activity • Update loan records with status changes • Key enter and verify hard copy records (alternative origination only) 	<ul style="list-style-type: none"> • Within 5 minutes of average • Within 10 business days of receipt • Within 3 business days of receipt of materials • 5 business days of receipt • 7 business days of receipt

Problem Resolution

The Department will send a copy of any complaint it receives from a borrower about a Servicing Center function to the Servicing Center manager.

- ❖ If the complaint alleges a violation of state or federal law, the Servicing Center will immediately cease collection activity on the account in question.
- ❖ Within five business days, the Servicing Center sends the Department a copy of its collection activity record on the account and any other relevant information the Department needs to respond to the complaint.
 - Any state consumer requirement that would cause the promissory note to be invalid could trigger such a complaint. These requirements vary by state.
- ❖ If the school receives a Servicing Center-related complaint from a borrower, the school refers the borrower to the Department.
- ❖ When the Servicing Center receives a complaint directly from a borrower alleging a violation of state or federal law, it will immediately cease collection activity on the account in question and send a copy of the complaint to the Department within three business days.
 - The Servicing Center will not resume activity on the account until the Department has approved resolution of the complaint.
- ❖ If a school has a Servicing Center-related complaint, the school should contact the Department's Regional Direct Loan Account Management Staff in the school's respective region. A staff member from this unit will research and follow up on all school questions and complaints, generally within 48 hours. The addresses and telephone numbers of the Direct Loan Regional Account Managers are included in the appendices.