What is Direct Lending and how does it work?
- Financial Aid Acronyms
- Overview of Program
- Funding and Disbursement
- Reconciliation

How JMU did it
1958 First federal student loan program established by the National Defense Education Act.

1965 Government established new student loan program provided through loan guarantees.

1990 Federal Credit Reform Act adopted. Requires subsidy estimates for all federal loans, guaranteed and direct.

1992 Direct lending pilot program created

1993 Legislation passed to phase in direct lending.

1994 Department of Education barred from encouraging or requiring colleges to switch to Direct Loans. As a result, Direct Loans’ share of new student loans begins decreasing.

2007 Direct Loans hit lowest share of all new student loans since the second year of the program

2008 Credit market disruptions cause schools to switch to Direct Loans, and Direct Loan volume as a share of federal student loan volume increases.

2009 President Obama proposes eliminating the FFEL program. All federal student loans would be made as Direct Loans.

2010 Legislation enacted eliminating the FFEL program. All new federal student loans as of July 2010 will be made as Direct Loans.
FINANCIAL AID “SPEAK”

CFL - Current Funding Level
COA - Cost of Attendance
COD - Common Origination and Disbursement
CPS - Central Processing System
EFC - Estimated Family Contribution
ESCSLA - Ensuring Continued Access to Student Loan Act of 2009
FFEL - Federal Family Education Loan
G5 - Drawdown system - formerly GAPS
LSDA - Late Stage Delinquency Assistance
NSLC - National Student Loan Coalition
SAIG - Student Aid Internet Gateway
SAS - School Account Statement
## FFEL or DL?

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Overview of Loan Program

- FSA Loan Portfolio
- Program Benefits
- Roles and Responsibilities
  - Institution
  - Federal Student Aid
- Direct Loan Processing Cycle
Loans originated in 2008-09 & owned by ED
- $67.2 billion
- 82% of all federal loans

76% of loans originated in FFEL in 2008-09 sold to ED

2,200 institutions originated $26 billion in Direct Loans as of 12/31/09 (2009-10 aid year)
Program Benefits

- Loan benefits similar with some exceptions:
  - Interest Rate
    - PLUS & Grad PLUS at 7.9% (FFEL at 8.5%)
  - Grace Period - same
  - Forbearance - same
  - Deferment
    - Public Service Forgiveness
    - No Accrual of Interest for Active Duty Service in Area of Hostility
  - Repayment Options
    - Income Contingent Repayment
ROLES AND RESPONSIBILITIES IN DL

School Responsibilities

- Certify eligibility
- Educate borrowers about their responsibilities
- Exchange student demographic and financial data with Federal Student Aid (FSA)
- Deliver loan proceeds to borrowers
- Manage funds
- Reconcile accounts
ROLES AND RESPONSIBILITIES IN DL

- Federal Student Aid
  - Provides operational, system, and service support to schools
    - School Eligibility
    - Funding
    - Reconciliation / Closeout
    - Communications / Publications
    - Loan Servicing
    - Software / Web based services
    - Customer Service
DIRECT LOAN PROCESSING CYCLE

- Originate
- Servicing
- Disburse

Promissory Note
Loan Origination in DL (loan certification in FFEL)
- Send Loan Origination Record to COD
  - Personal Data
  - DL Award Data
  - Disbursement Amount & Date
- COD Response
  - Accept
  - Reject with explanatory edit codes
  - Status and expiration date of promissory note
DIRECT LOAN PROCESSING CYCLE

- Servicing
- Disburse
- Originate
- Promissory Note
School Options for the MPN

- Multi-year vs. Single-year

- Electronic vs. Paper
  - COD Print; or,
  - School Print
www.dlenote.ed.gov
Benefits
School Options
eMPN simulations
Schools can have COD print and mail MPN
- Printed MPN can be sent to the school or student

Schools Options
- Provide borrower with blank MPN to complete
- Provide borrower with a preprinted MPN to sign
- Instruct borrower to return completed MPN to COD or school

MPNs returned to the school must be batched and sent w/ manifest to MPN processor
MPN RESPONSE

- Pending MPNs—no originated loan in COD
- Linked MPNs - new loan awards are ‘linked’ to active MPNs
  - If more than one MPN active loan is linked to MPN with greatest expiration date
Online counseling available on Direct Loan Servicer web site www.dl.ed.gov

Entrance counseling materials available at www.fsapubs.org

Entrance and exit counseling reports available from Direct Loan Servicing
DIRECT LOAN PROCESSING CYCLE

Servicing → Disburse → Originate

Promissory Note
FUNDING LIFE CYCLE

- Initial Authorization
- Disbursement and Loan processing
- Drawdown using G5
- Monthly reconciliation disbursements/cash
  - School/COD System/G5
- End of Award Year Reconciliation and Closeout
INITIAL AUTHORIZATION

- Initial authorization in early Spring
- Approximately 60-65% of the amount of the disbursement records on file from the previous year
- Possible increase in mid year
Schools receive initial Current Funding Level (CFL) - “budget”

Advance Cash Funding Method

Request funds through G5

Before or after disbursing aid

Must submit disbursement records to COD within 30 days to substantiate draw downs
**DISBURSEMENTS**

- MPN required for disbursement
  - Disbursement records for loans without an accepted MPN will reject
- Report Disbursements within 30 days
  - Actual disbursement date
  - Amount Disbursed
  - 30 Day Warning Report
School must honor request

- Affirmative Confirmation: within 14 days
  - Active confirmation — a school does not disburse the loan until the borrower either affirmatively requests or accepts the proposed loan type and amount or requests changes to the proposed loan package.

- No affirmation or Passive Confirmation: within 30 days
  - Passive confirmation — a school does not disburse the loan until the borrower is notified of his or her proposed loan package, and the time given to the borrower to respond has elapsed. The borrower only needs to take action if he or she wants to decline the loan or make adjustments to the type or amount of the loan.
BORROWER’S RIGHT TO CANCEL

- School’s Option within 120 days of disbursement
- If school denies request, or after 120 days, borrower can repay funds but is responsible for interest and fees
- To cancel a loan in COD reduce loan amount and disbursed amounts to $0
Currently all direct loans are serviced by ACS

Four additional servicer contracts awarded
- Great Lakes Educational Loan Services
- Nelnet
- Sallie Mae Corporation
- AES / PHEAA

New DL borrower loan volume will be assigned in July, 2010
Borrower’s loans will be serviced by one contractor
  - All DL and federally held FFEL loans
  - Schools may have to deal with multiple servicers
Borrower services all available electronically
Borrowers can see all federal loans through NSLDS (i.e., FFEL not federally held)
LOAN SERVICING

- Default Aversion Services
  - Current DL Servicer provides default aversion information to all DL schools
  - Schools may opt to use information to support local default aversion activities
  - New contractors will work with schools to support local default aversion activities
  - Performance based contracts reward collection success
Disbursement & Loan Processing

- **Disbursement**
  - **Method**
    - Credit account; refund funds in excess of charges
    - Same requirements as all FSA Funds
  - **Timing**
    - Up to 10 days prior to beginning of classes
    - Late Disbursements within 120 days
  - **Verify student is still eligible at point of disbursement**
    - Enrollment
    - SAP
    - Valid MPN
Loan Processing

- Send Actual Disbursement Date to COD
  - Sets ‘clock’ for time limit for release of drawn funds
  - Notification and cancellation time periods based on this date
  - Transfers responsibility for the loan to the borrower

- May affect CFL

- Loan can be adjusted or cancelled after disbursement by adjusting disbursements downward
Funding Methods

- Advanced Cash: School requests funds
- Pushed Cash: ED transmits funds to cover school’s reported disbursements (ends in 2010-11)
- Reimbursement or Cash Monitoring: School must substantiate disbursements and ED must approve before funds released
School receives an initial CFL
School draws down cash via the G5 Web site
School sends in MPNs and actual disbursement records to substantiate cash received
COD System sends CFL increases to G5 so school can continue to drawdown funds as needed
Department of Education’s payment system
Formerly known as GAPS
Schools Use the G5 System to:
  ▪ View current funding information
  ▪ Request Payments
  ▪ Adjust Drawdown
  ▪ Return Cash
  ▪ G5 Funding Reports
Welcome to the G5 System!

It is with great pride that the U.S. Department of Education (ED) announced the G5 application. G5 is a state-of-the-art electronic system for grants management and payments. It will replace the current Grant Administration and Payment System (GAPS).

more »

News and Events

07/29/2007 Recipient Training - As a recipient of U.S. Department of Education (the Department) grant funds, you are accountable for ensuring the funds are spent for the purpose of the grant. more »

07/26/2007 Refund Notice - When sending refund checks to the Department of Education, please remember to include the correct GAPS number and the complete 11-digit award number for every refund check. more »

07/25/2007 New Bank Account Requirements - The Department has instituted new procedures for payees to establish new bank accounts in GAPS, in addition to any changes to bank account information. more »

Frequently Asked Questions (FAQs)

Q: What is the ACH and Direct deposit method of payment?

A: ACH stands for Automated Clearing House. If you elect ACH as the method of payment, then funds requested prior to 3:00 p.m. EST should be received by the designated financial institution the next business day.

For DIRECT DEP, funds are received the same day if the request is made prior to 2:00 p.m. EST, the next day if after 2:00 p.m. EST.

click here for more »
My Awards

- Displays a list of all of your institution's awards in G5
- Gives a quick snapshot of a Recipient’s Award number, Available Balance, Last Date to Draw, and Award Status
MY AWARDS IN G5

Welcome to the G5 System!

It is with great pride that the U.S. Department of Education (ED) announces the G5 application. G5 is a state-of-the-art electronic system for grants management and payments. It will replace the current Grant Administration and Payment System (GAPS).
BANKING SET UP

- Contact G5 to
  - Set up bank account
  - Add a new bank account
  - Designate Account for Direct Lending

- Instructions on how to set up banking is located at [www.g5.gov](http://www.g5.gov) in the FAQ section

- Takes 2-3 days to process banking once all documentation is received
REQUESTING FUNDS

Funding
- Schools request funds from G5
- Transmission of funds to school
  - ACH
  - FEDWIRE
DRAWDOWN CONSIDERATIONS

- Estimate disbursements using net disbursement amounts (loan fees)
- Consider funds on hand from previous requests
- Must disburse within 3 days of draw (34 CFR 668.162(b))
- See 34 CFR 668.166 regarding excess cash
RECONCILIATION

What is it
- Compare institution’s records with COD
- Similar to balancing a checkbook

What has to be done
- Identify discrepancies
- Track timing issues for resolution next cycle
- Document monthly reconciliation activities

Why is it important
- Timely resolution of cash balance issues
- Supports more efficient year end close out
What is it
- Annual reconciliation

What has to be done
- Achieve $0 cash balance at COD & School
- School Account Statement shows no unbooked loans
- COD = School DL records = Business Office system transactions

Why is it important
- Program requirement
- Confirm school records agree with COD & G5
Multiple students applying through multiple banks or lending institutions.

Financial Aid office and/or Business Office had to track down loan checks not received from various lenders.

Not a cohesive communication process between the lender and the educational institution regarding additional documents or missing information needed.
RESOURCES

- Transition Resources
  - The Financial Aid Professional’s page on the Direct Loan web site at
    http://www.direct.ed.gov/professional.html

- The National Direct Student Loan Coalition
  www.directstudentloancoalition.org

- Direct Loan Training for Business Officers
  http://ifap.ed.gov/dpcletters/ANN1008.html
RESOURCES

- **Web Sites for Schools**
  - Direct Loan - [www.direct.ed.gov](http://www.direct.ed.gov)

- **Call Centers for Schools**
  - COD School Relations - 800-848-0978
  - DL Servicing for Schools - 888-877-7658
  - DL Consolidation Center - 800-557-7392
RESOURCES

- Resources for Schools
  - Direct Loan School Guide
  - Federal Student Aid Handbook
    www.ifap.ed.gov
  - COD Technical Reference
FEDERAL DIRECT LENDING

- Case Study of JMU
**BUSINESS OFFICE VS. FINANCIAL AID DIVISION OF DUTIES**

University Business Office - Division of Administration and Finance
• Cashiering, Accounts Receivable and Collections - Student & Departmental
• Student Accounts and Billing
• PCI Compliance and all Credit Card Processing on Campus
• Perkins Loan Program
• Financial Aid downloads, Disbursement and Refunding
• Outside Scholarships and Third Party Billing

Office of Financial Aid - Office of the President
• Federal and State Financial Aid - Loans, Grants and Scholarships
• Private Loans
• University Scholarships
• Student Work Study
Indications of Feds moving to mandatory direct lending
• Economy - fewer lenders
• Scandals with Lenders
• Proposed legislation - Student Aid & Fiscal Responsibility Act of 2009

Advantages for students
• One Lender, One MPN
• All documentation comes through JMU
• Quicker disbursement

Advantages for JMU
• Pull funds based on Financial Aid verified roster instead of “pushed” lender roster
• Only 3 places to return funds instead of hundreds of lenders
• Quicker disbursement, happier customers
• Less complicated system communications
Decision made by Senior Management to Proceed Early 2009

- UBO and Fin Aid Directors and managers met to discuss implementation and timelines
- UBO and Fin Aid staff watched DOE webcast on DL
- UBO staff reviewed DOE requirements for handling funds
  - Required a separate unique account - no co-mingling of funds
  - Reviewed changes with appropriate UBO staff and updated desk procedures
  - Obtained log-in and password for G5 downloads and returns
- Biggest UBO issue was internal financial procedures and state funds handling regulations
- First DL processing successfully occurred summer 2009
FIN AID IMPLEMENTATION TIMELINE

• March 24, 2009 - Complete sign up process through COD
  • Complete DL technical set up and testing in PS
  • Modify Entrance/Exit Counseling set up
  • Update applicable loan processing policies to DL
  • Web site updates
• April 1, 2009 - Complete update applicable loan processing policies
  • Update consumer information
  • Implement plan to get DL MPN completed by students before spring semester ends **
  • Complete DL process testing in PS
• April 6, 2009 - Go live and start making awards for summer school
• May 1, 2009 - Ensure bank accounts are properly set with Finance
  • Ensure UBO is set up and ready to process
  • First disbursements set for mid-May 2009
HOW DID WE DO?

Loans in Process

Accepted-Origination Pending: 30
Originated-Certification Pending: 89
PLUS BIO DEMO Needed: 0
Borrower Change Req Pending: 30
Problem Loans Pending Research: 53
Private Pending Cert: 8
Private Pending Disbursement: 49
Total Loans in Process: 237

2/27/2009
2/26/2010
• Comparison of Aid Disbursed - Good for Financial Aid Office
  • First 2 weeks of fall 08 - $16,499,092 - FFEL
  • First 2 weeks of fall 09 - $33,444,995 - DL
  • Fall 2008 total federal loans - $33,073,066 - FFEL
  • Fall 2009 total federal loans - $40,763,872 - DL

• Aid returned - only 3 places to return instead of hundreds - Good for UBO
  • less than 30 days
  • 30 to 120 days
  • over 120 days

• Most difficult part was the communication with students and parents about the change - start early and repeat, repeat, repeat.
Step #1
• Lender sends JMU roster
• Lender sends bank funds

Step #2
• Lender sends JMU roster
• Lender sends bank funds

Step #3
• Pull funds from student account and return to Lender #1

Repeat, Repeat, Repeat
DL BUSINESS OFFICE DISBURSEMENT AND RETURN PROCESS

**Employee #1**
- Receives $ amt from Fin Aid

**Drawdown**

**G5**
- Pulls from Fed's System
- Transfers to JMU DL Account

**Employee #2**
- Funds returned pulled from JMU Bank to G5

**Bank**
- Received roster from Fin Aid
- Confirms funds in bank

**Student Account**
- Posts award
- Refunds overage

**Disburses**

**Reconciles**
- Fin Aid roster to system
- System to Bank Account
- Bank to GL

Note: JMU Employee #1 Currently has duties of all electronic drawdowns
DL RECONCILIATION RESPONSIBILITIES

Business Office
Financial Aid
Roster to
System to Bank
to GL

Financial Aid
Monthly and Year End to
Feds
Financial Aid
Monthly and Year End to Feds

- Monthly is internal recon using Excel spreadsheet comparing PS query of disbursement to COD report
- Remit twice weekly disbursements to COD
- Some PS issues with our queries missing records
- Assigned a customer service rep at COD
- No more paper checks!
- Use monthly recon for year-end report
IN HINDSIGHT AND EYEING THE FUTURE

- Direct Loan process “forces” Fin Aid to do a better job of verification of enrollment and eligibility before remitting roster

- Another opportunity for UBO and Fin Aid staff to work together and be successful on a common goal

- Biggest issue for UBO was a State Financial Policy

- Lower interest for our customers

  - Will the Feds be better at collecting than private lenders?
  - Current Servicer and New Servicers?
  - LSDA - current school personnel reaching out?
  - Customer service through the Feds?
    - How well are the reps trained?
QUESTIONS?
VPEP and federal student loans
  • Refund loan prior to VPEP
  • System issues

Red Flag Update
  • Enforcement date is June 1, 2010

Common collection problems
  • Late fees
  • Housing contract cancelation fee
  • Fines, i.e. parking, library, judicial, dorm