

DIRECT LOAN PROCESSING INTRODUCTION

MAY 2010

Your school, which has been processing Federal Family Education Loan (FFEL) Program loans for eligible students and parents from the United States (U.S.) to date, will begin processing William D. Ford Federal Direct Loan (Direct Loan) Program loans for eligible U.S. students and parents on July 1, 2010. The loans made under the FFEL Program and the Direct Loan Program are very similar in their terms and conditions, and the rules your school will follow to determine a student's or parent's eligibility are the same with some very minor exceptions. However, the process through which your school will make Direct Loans available to U.S. students and parents is different than it was under the FFEL Program.

The U.S. Department of Education (the Department) is committed to assisting your school as it transitions from processing loans under the FFEL Program to processing loans under the Direct Loan Program. To begin, we have developed a series of high-level overviews of the four Direct Loan processing components. These overviews are posted in the Foreign School Direct Loan Processing area of the Foreign School Information page (the same area in which the document you are reading is posted). Our intention is to provide summary processing information that will be supplemented by the Department's Direct Loan training workshops for foreign schools in June 2010, ongoing Direct Loan webinars, and existing technical documentation.

In addition to the overview, training, and technical reference materials, the Department will assign a member of our specialized Direct Loan enrollment team to each foreign school that enrolls to participate in the Direct Loan Program. The specialist assigned to your school will assist you in the transition and serve as a valuable resource for Direct Loan processing information. Your school's specialist (also referred to as Point of Contact) will provide his or her contact information; alternatively, you may contact your school's specialist by e-mail at foreignschoolenrollment_fsa@ed.gov.

Direct Loan Processing Components

To process Direct Loans, your school will complete activities that can be grouped into four major components – Origination, Disbursement, Funding, and Reconciliation. The overview for each component will introduce you to what will need to be done, how it will be done, and who (or which system) will do it. This information will be at a relatively high level, but when the overviews are read in order of presentation they provide a complete summary of Direct Loan processing.

The four components of Direct Loan processing are as follows:

- ***Origination Process*** – Through this process, your school will determine a student's or parent's eligibility for a Direct Loan Program loan and electronically inform the Department's Common Origination and Disbursement (COD) System of that eligibility and loan information. It is comparable to the certification process your school completed under the FFEL Program. Think of this as informing us of who will receive Direct Loan funds, for what period, in what amounts, and on what anticipated dates. Depending on the number of loans your school will process, you will use one of several software product options that are available to assist schools in originating Direct Loan awards and communicating with the COD System.
- ***Disbursement Process*** – Through this process, your school will complete a final confirmation of a student's or parent's eligibility for a Direct Loan Program loan and inform the Department's COD System that it is ready to disburse actual funds to the student or parent. It is somewhat different than the disbursement process your school used under the FFEL Program because all Direct Loan funds will be made available electronically to your school for disbursement to the student or parent; the Department will send no checks to your school, students, or parents. Think of the disbursement process as the means by which your school will inform us of the actual

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amount your school will disburse and the actual date on which it will do so in preparation for drawing down the necessary funds.

- **Funding Process** – Direct Loan Funding is the process through which your school will draw down Direct Loan Program funds via G5, the Department’s payment management system. Your school will draw down funds via G5 after it has submitted origination and actual disbursement information for a Direct Loan Program loan to the Department’s COD System. This process is somewhat different than the funding process your school used under the FFEL Program because all Direct Loan funds will be made available electronically to your school via the [G5 Web site](#) for disbursement to the student or parent. Think of the funding process as drawing down or obtaining via the [G5 Web site](#) the actual Direct Loan funds your school identified that it will disburse.
- **Reconciliation Process** – Direct Loan Reconciliation is the process through which your school will review and compare the Direct Loan Ending Cash Balance recorded in the Department’s COD System to your school’s internal records on a monthly and annual basis. Annual reconciliation is referred to as Program Year Closeout and must be completed by the established deadline for each year. Think of monthly and annual reconciliation as balancing your own personal checkbook; if you resolve discrepancies as they occur each month, you will have a balanced checkbook at the end of the year.

High-Level Overviews

The high-level overviews of the Direct Loan processing components are presented in the following order under this Introduction document in the Foreign School Direct Loan Processing area of the Foreign School Information page:

- Origination Process Overview
- Disbursement Process Overview
- Funding Process Overview
- Reconciliation Process Overview

The overviews build on each other and are intended to be read in the order presented. The four overviews as a whole summarize Direct Loan processing from start to finish.

We welcome foreign schools to the Direct Loan Program and look forward to our work together.