

## CHAPTER 1

# DIRECT LOAN PARTICIPATION

### Essential Questions

- ❖ What are the different levels of participation for Direct Loans?
- ❖ What are the functions each level performs?
- ❖ Do I want to participate 100 percent in Direct Loans, or should I phase it in?
- ❖ Can I change my level of participation once I am in?
- ❖ Do I receive an administrative fee for originating loans?
- ❖ Is it better for my school to participate in a consortium or as an individual institutional entity?
- ❖ How do I withdraw from the program?

### Eligibility Criteria

To participate in 1996-97, a school must meet and maintain certain eligibility criteria:

- ❖ meet the eligibility requirements of section 435(a) of the HEA
- ❖ have a cohort default rate of less than 25 percent for at least one of the three most recent fiscal years, unless the school is exempt under section 435 (a)(2)(C)
- ❖ not be subject to emergency action or a limitation, suspension, or termination action

For 1996-97, a school must also execute a Program Participation Agreement (PPA) separate from the PPA for Title IV programs and have or soon have the technological capacity to participate electronically.

## Origination Status

Any school participating in the Direct Loan Program under section 685.400 is eligible to participate under Standard Origination (formerly Alternative Origination). Schools meeting the additional criteria shown below may originate loans under Origination Option 1 (formerly Level 2 ) and Option 2 (formerly Level 1). The Department notifies schools of the origination status under which they are eligible to participate.

### *Additional Criteria for Originating Loans Under Options 1 and 2*

Schools must

- ❖ be currently participating in the Federal Perkins Loan Program or in the Federal Pell Grant Program, or for a graduate or professional school, have participated in a similar program for the three most recent years
- ❖ not be on the reimbursement system of payment in the Federal Pell Grant Program
- ❖ have had no severe performance, audit, or program review deficiencies for any Title IV program
- ❖ be financially responsible in accordance with the standards of 34 CFR 668.15
- ❖ be current on program and financial reports and on Title IV audits for the 12 months immediately preceding the Direct Loan application date
- ❖ be current on required federal cash transaction reports and have no final determination of cash on hand that exceeds "immediate need"
- ❖ have no material findings in annual financial audits submitted for the three most recent years preceding the Direct Loan application date
- ❖ provide assurance that there are no delinquent debts to the federal government (unless the debts are being repaid under an arrangement satisfactory to the government or unless the Department of Education decides the appropriate federal agency has not determined the existence or amount of the debts)

## DIRECT LOAN SCHOOL GUIDE

<b>SCHOOL ORIGINATION OPTIONS</b>			
Functions <sup>1</sup>	Option 1	Option 2	Standard Origination
Create loan origination record	School	School	School
Transmit record to Direct Loan Servicing Center	School	School	School
Prepare promissory notes	School or Servicing Center <sup>2</sup>	School or Servicing Center <sup>2</sup>	Servicing Center <sup>3</sup>
Obtain completed/signed promissory note from borrower	School	School	Servicing Center
Submit promissory note(s) to Direct Loan Servicing Center and transmit electronic manifest	School	School	N/A
Determine funding needs	Servicing Center	School	Servicing Center
Initiate drawdown of funds	Servicing Center	School	Servicing Center
Receive funds electronically	School	School	School
Disburse loan to borrower	School	School	School
Create disbursement record	School	School	School
Transmit disbursement record to Direct Loan Servicing Center	School	School	School
Reconcile on monthly basis	School	School	School

<sup>1</sup> For 1996-97, under section 685.102 of the December 1, 1995 final regulations, the Department may modify the functions a particular school performs under any origination option.

<sup>2</sup> Option 1 and Option 2 schools may print promissory notes themselves or have the Direct Loan Servicing Center print them and send the notes to the schools.

<sup>3</sup> The Direct Loan Servicing Center prints promissory notes and sends them to the Standard Origination school's borrowers.

## Deciding on the Type of Participation

Before your school enters the Direct Loan Program, you must consider the level at which you *want* to participate and the level at which you are *eligible* to participate. It is important to understand the responsibilities associated with each level (option) to determine the control you will have.

As you make this decision, think about your staffing levels, service to students, demands your campus makes on you, and commitment from institutional resources. You must decide what is best for your school and how much control you want to have. Also consider the level of support your school will provide, for example, from the computer center and the business office.

## 100 Percent Participation vs. Partial Participation

In addition to deciding your level of participation, you will need to determine if you want to participate fully in the Direct Loan Program. In other words, should all students receive Direct Loans or should some of your students receive Direct Loans and some receive FFELs? Keep in mind that a student cannot receive both types of loans for the same loan period, but your institution can participate in both programs.

In deciding, you may want to think about the following factors:

- ◆ your ability to manage two programs—consider
  - staffing
  - training
  - possibility of confusion (for students and staff)
  - how much support you have at your school for a new program
  - the efficiency and cost effectiveness of the FFEL Program to determine how easy it would be for you to run parallel programs

- ◆ your student population—consider
  - the importance of keeping students in one loan program (grandfathering Direct Loans into your school by using the program only for new students)
  - the mix of graduate/professional and undergraduate students (graduate students may have many years of loans behind them from their undergraduate education)

### **Changing Origination Status**

At any time, an Option 1 or Option 2 school may participate under an option with less responsibility and control. To do so, the school must notify the Department in writing and await a reply with an effective date.

A Standard Origination or Option 1 school can apply to participate under an option with more responsibility and control after one full year of participation under the initial origination status. Schools must provide documentation to support the change. The Department considers these applications annually and bases its decision on a school's prior year performance.

- ◆ Schools can request participation changes by writing to

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U.S. Department of Education  
Room 4025, ROB-3  
600 Independence Avenue, S.W.  
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1(202) 708-9951 (telephone)  
1(202) 401-3424 (fax)

- ◆ Before deciding if you want to change your origination status, review the *School Guide* chapters on origination records, promissory notes, funds request, and disbursement.

### **Origination Fees**

For 1996-97, there are no payments for origination services for schools at any participation level.

## Consortia

Schools may participate in Direct Loans through consortia arrangements. A consortium is a group in which each school may perform some of the school-based functions shown on page 1-3; however, only one school communicates with the Department for all schools in the group. Each school in the consortium must be eligible to participate in Direct Loans, must sign an individual Direct Loan Program Participation Agreement, and must meet the criteria to originate loans *at the chosen level of participation*. Each school is responsible for the information it supplies through the consortium's lead school.

Participation in a consortium arrangement may benefit schools that wish to use the administrative and computer resources of one school rather than obtain such resources themselves. A consortium can reduce the individual effort by one school and save resources.

- ◆ For example, a group of small schools currently operating manually might form a consortium and develop one of the schools as a "site" or "destination" for all computer activity associated with the Direct Loan Program. This arrangement may benefit schools with similar missions and populations.

## Withdrawal Procedures

Participating schools may withdraw from the Direct Loan Program at any time by submitting a written request to the Department (see the address on the previous page), giving the reason for withdrawal and an effective date, which must be at least 60 days later than the withdrawal request date. Unless the Department approves an earlier date, the withdrawal date will be the date the school selects or 60 days after the school notifies the Department. The Department may also initiate a school's withdrawal if there are performance or eligibility problems.

Certain activities related to program withdrawal are necessary, such as close-out audits and a process for making additional required disbursements.

## Points to Consider in Managing Direct Loans

- ◆ Consider developing a list of your constituents, including prospective students, their parents, high school counselors, other campus administrators, regents, etc.
- ◆ Make sure that all who need to know about the school's decision to participate in Direct Loans are kept informed.

- ❖ It might be appropriate to designate one or two people in your office as official Direct Loan spokespersons.
- ❖ Develop a team approach to Direct Loans at your school. As you can see from the discussion in this chapter, the issues to consider will involve staff other than financial aid office personnel. Teams, committees, working groups, and task forces are all ways to encourage communication and commitment.
- ❖ Assess your school's resources, including mainframe, personal computer, or Direct Loan Servicing Center area network capability. Depending on your level of automation, you may want to phase-in the Direct Loan Program.
- ❖ Develop a collaborative problem-solving approach. Use the Direct Loan Program to re-think the process of providing customer service to your students. Identify the issues that need to be explored and the timeframe for resolution.