Direct Loan Update

IASFAA 2015 Annual Conference

Chuck Hirman
U.S. Dept. of Education, FSA
Federal Loan School Support Team
Agenda

• Loan fees
• Loan counseling
• Interest rates
• PLUS loan changes
• Reporting disbursements
• New Award Year Setup
• Cash management & reconciliation
# Loan Origination Fees

- Sequestration-driven
- They’ll keep happening
- COD calculation/truncation rules have not changed

<table>
<thead>
<tr>
<th>Earliest Disb Date</th>
<th>Sub/Unsub Orig Fee</th>
<th>PLUS Orig Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before 7/1/2013</td>
<td>1.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>7/1/2013 – 11/30/2013</td>
<td>1.051%</td>
<td>4.204%</td>
</tr>
<tr>
<td>12/1/2013 – 9/30/2014</td>
<td>1.072%</td>
<td>4.288%</td>
</tr>
<tr>
<td>10/1/2014 – 9/30/2015</td>
<td>1.073%</td>
<td>4.292%</td>
</tr>
<tr>
<td>10/1/2015 – 9/30/2016</td>
<td>1.068%</td>
<td>4.272%</td>
</tr>
</tbody>
</table>
Origination Fees – New Processing

[1] New Reject-213

- Actual disbursement submitted with EDD after the “Established Date”

- We know *when* the new fees are changing (Established Date) but until we know *what* they’ll be we’ll reject the actuals

- The next Established Date is 10/1/2016
Origination Fees – New Processing


- Once new fee percentages are known
- COD will correct records having only anticipated disbursements
- CROF17OP = 2016/2017 award year
Loan Counseling

• Schools have flexibility with entrance counseling
• Ensuring borrowing decisions are well-informed and carefully considered
• But cannot deny or limit otherwise eligible borrowers except by using professional judgment on a case-by-case basis
• Counseling types:
  o Entrance Counseling
  o Financial Awareness Counseling
  o Exit Counseling
  o PLUS (credit) Counseling
Parent Loan Counseling

- *Optional* parent loan counseling
- Felt they should have same access to the important information available to student borrowers
  - Repayment calculator – to get an estimate of monthly repayment amounts
  - Extensive consumer information
  - Repayment options and interest rates
- Hope institutions will encourage the use of the calculator
- **Available in StudentLoans.gov**
- Same as PLUS (credit) counseling but this is optional where that is required under certain circumstances for parent PLUS borrowers and/or graduate PLUS borrowers
Regulatory Provisions

1. All first-time student borrowers must undergo entrance counseling – *one time* (one time each for first Subsidized/Unsubsidized and first graduate PLUS loan)
   - Cannot be compelled to complete subsequent entrance counseling as a condition for receiving a Direct Loan

2. With one exception it is entirely the borrower’s decision of whether to borrow and for how much
   - On a *case-by-case* basis schools can limit this using the usual prohibitions as explained in Volume 3, Chapter 5 of the Handbook
Counseling **Do’s and Don’ts**

- You *may* include additional information beyond that which is required
  - But may *not* unreasonably impede ability to borrow
- You *may* require a borrower to take a test or evaluation
  - But may *not* establish a passing score or unreasonably impede ...
- *May* require borrower to complete a worksheet or some kind of exercise
  - But may *not* require them to justify the need for the loan or unreasonably impede ...
- *May* require participation in a workshop or orientation
  - May *not* make such participation an unreasonable impediment to ...
- *May* target these flexibilities to certain defined groups of students
  - But must be voluntary and *cannot* be the usual prohibitions
- *May* not require additional entrance counseling, including making such counseling a condition in SAP appeals
# Loan Counseling

<table>
<thead>
<tr>
<th>COUNSELING TYPE</th>
<th>REQUIRED FOR</th>
<th>WHEN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrance</td>
<td>• First-time subsidized or unsubsidized borrowers</td>
<td>Prior to receiving funds the first time the student borrows a Sub/Unsub as an undergrad or a PLUS as a graduate/ professional student</td>
</tr>
<tr>
<td></td>
<td>• First-time graduate/ professional student PLUS borrowers</td>
<td></td>
</tr>
<tr>
<td>Financial Awareness</td>
<td>Optional</td>
<td></td>
</tr>
<tr>
<td>PLUS (credit)</td>
<td>PLUS borrowers (all) who have credit denied and</td>
<td>Prior to being disbursed and each year a borrower requests a PLUS loan and has adverse credit</td>
</tr>
<tr>
<td></td>
<td>• Obtain an endorser, or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Successfully appeal</td>
<td></td>
</tr>
<tr>
<td>Exit</td>
<td>Student borrowers</td>
<td>When student borrowers graduate, leave school, or drop below half-time enrollment</td>
</tr>
</tbody>
</table>
Interest Rates

• Direct Loans first disbursed 7/1/2015 – 6/30/2016
• Consolidation loans: weighted average of underlying loans, rounded up to the next higher 1/8th of one percent
• Subsidized loans: 4.29%
• Unsubsidized loans for undergraduates: 4.29%
• Unsubsidized loans for graduate/professional: 5.84%
• PLUS loans (all): 6.84%
PLUS Loans – 3 Big Changes

- Adverse Credit Criteria
- Credit Check Duration
- PLUS (Credit) Counseling
Adverse Credit Criteria

- One or more debts have a total combined outstanding balance of greater than $2,085
  - 90 days or more delinquent, or
  - Charged-off or placed in collections within past two years

- All the usual conditions still apply (bankruptcy, foreclosure, tax lien, default determination)

- $2,085 threshold will increase over time based on rate of inflation
Credit Check Duration

• **Expanded** from 90 days to 180 days

• COD recalculated all credit checks, even those already expired, so those expired less than 180 days ago will again be valid

• Schools received e-mail/report from COD indicating which borrowers are having their credit check expanded
PLUS (Credit) Counseling

- PLUS borrowers with adverse credit who decide to pursue the PLUS loan:
  - Either by appealing based on extenuating circumstances, or
  - Obtaining an (approved) endorser

- Are required to complete PLUS Counseling on the StudentLoans.gov website

- Applies to both Grad PLUS borrowers and Parent borrowers (but not endorsers)
  - Grad PLUS Loan entrance counseling is a totally separate requirement/flow. Applies only to grad students (not parents). Only has to be completed once. PLUS (credit) counseling and Grad PLUS entrance counseling are NOT interchangeable.

- COD Reject-217 will fire on actual disbursements if this new requirement hasn’t been completed
PLUS Counseling

- This is NOT entrance counseling
- Only available on StudentLoans.gov
- Anyone can take this
- Adverse credit PLUS borrowers must take it
PLUS Counseling – *StudentLoans.gov*

- For parent and graduate student PLUS borrowers
- Better prepare them for loan repayment
- Only in English, at least at this time
- Signed in: NSLDS loans are retrieved
  - Loan Summary – user can add loans
  - Tuition – IPEDS data, or national average
  - Income and expenses
  - Repayment plans and tips
  - Completion results sent to COD
- Must complete in one sitting
PLUS Loans – *Credit Status Response*

CS Response will contain:

\[<\text{OriginalCreditDecisionStatus}>\]

known as \[<\text{CreditDecisionStatus}>\] when coming in Common Record response

*if denied*

\[<\text{CreditAppealStatus}>\]  
*or* \[<\text{EndorserApproved}>\]

\[<\text{PLUSCounselingCompleted}>\]

\[<\text{CreditRequirementsMet}>\] = \(Y\)
The PLUS Credit Process Flow

Credit Status

Approved

\(<\text{CreditRequirementsMet}> = Y\)

<CreditRequirementsMet> = N

Denied

Borrower Decision

Wants to pursue PLUS

Successfully Appeals

<CreditRequirementsMet> = N

Gets Approved Endorser

<CreditRequirementsMet> = N

Borrower Completes PLUS Counseling

<CreditRequirementsMet> = Y

Doesn’t want to pursue PLUS ... no further action
The PLUS Credit Process Flow

Credit Status

Approved

<CreditRequirementsMet> = Y

Denied

<CreditRequirementsMet> = N

Borrower Decision

Doesn’t want to pursue PLUS ... *no further action*

Wants to pursue PLUS

*Borrower Completes PLUS Counseling*

<CreditRequirementsMet> = N

Successfully Appeals

<CreditRequirementsMet> = Y

Gets Approved Endorser

<CreditRequirementsMet> = Y

The PLUS Credit Process Flow
What the <CRM> ... isn’t

Remember, <CreditRequirementsMet>

- Only tells you that the credit requirements have been taken care of
- <CRM> = Y means you can disburse as far as having acceptable credit goes
- It does not mean:
  - The MPN has been signed
  - Grad PLUS entrance counseling has been completed
  - The myriad other eligibility requirements have been met
  - Or, that the endorser didn’t reduce the amount for which they agree to endorse the loan
Disbursement Reporting Requirement

15-day reporting requirement
Federal Register posted 2/28/2013

- Disbursements and adjustments made on/after 4/1/2013
- Pell LEU and SULA all need prompt reporting to COD
- For now COD edits are still looking at 30 days but the Regulations are tighter, 15 days
  - School Monitoring Report
  - 30-Day Warning Report
  - Warning Edit 055

<table>
<thead>
<tr>
<th>No.</th>
<th>Edit Type</th>
<th>Block</th>
<th>Message</th>
</tr>
</thead>
<tbody>
<tr>
<td>055</td>
<td>W</td>
<td>Disbursement</td>
<td>Disbursement Information Received 30 Days after Date of Disbursement</td>
</tr>
</tbody>
</table>
Disbursement Date Reporting

- The actual disbursement date is the date a school credits the student’s account or pays the student or parent directly.
- Actual disbursement date reported to COD must be accurate due to interest calculations and various timeframes, deadlines, and a number of regulatory triggers (i.e. loan fees, interest rates).
- We are seeing schools merely flipping the DRI to True but not first updating the disbursement date.
- Warning edit 055, School Monitoring Report, other implications.

Electronic Announcement
1/29/2014
Disbursement Date Example

July – originate loan fall-spring
D1-9/1 “F” $2,000 – antic.  D2-1/15 “F” $2,000 – antic.

September – student still not eligible (SAP, MPN, whatever)

November – student finally eligible, School posts funds to acct on 11/1 flips DRI to “T” and sends to COD ... oops!

COD/Servicer -
• charges interest on $2,000 from 9/1, though funds were not made available to borrower until 11/1
• sends school W-055 and produces School Monitoring Report

Solution: Update disbursement date to 11/1, then change DRI to “T” and send
Disbursement Date & Amount Changes

• Beginning October 11, 2015 can be made in the same transaction
• We will retire COD Reject Edit 57.
• The change will apply to all award years. If a school chooses, it can continue to send disbursement amount and date changes as separate transactions.
Upward Disbursement Adjustments

- Should only be made to correct an erroneously reported actual disbursement
- Interest is calculated from the sequence 01 date
- If you give additional funds make a new disbursement for that additional amount

Diagram:

10/1 – initial disbursement of $2,000

$2,000 Disb-1 Sequence-01

Student’s interest is recalculated on $3,000 from 10/1

11/1 – school disburses another $1,000

$3,000 Disb-1 Sequence-02

ERROR
Disbursements – 120-Day Rule

• For any loan type (Sub, Unsub, PLUS) if the borrower returns funds asking the disbursement be reduced you may accept those funds up to 120 days from the disbursement date
  • Reduce disbursement and report to COD
  • Re-disburse or return the money to G5
  • Borrower gets a break on interest and loan fees of returned amount
  • And if loan or disbursement completely zeroed out within 120 days Subsidized usage is removed.
  • You are not required to do this beyond the regulatory right to cancel timeframes. However, a lower debt burden is a default less likely

Does not apply to returns required for regulatory reasons
Those must be made no matter when they’re discovered
CSV Format Search Results Available to Download

• For most COD website searches
• Beginning **October 11, 2015**, we will add an “Export Results to CSV” icon to the various searches on the COD Web site.
• The maximum number of results that can be downloaded into a CSV format is 5000. If the search results exceed this limit, a user will need to refine his or her search to reduce the number of search results to be under 5000.
NAYS for 2016/2017

- NAYS: New Award Year Set-up
- COD Release 15.0 - Implementation 3/13/2016
- 2016/2017 award year added to COD functionality
- Funding – if advanced funded:
  - If you traditionally have early disbursements a funding authorization will be made that is expected to cover the amount
  - Estimate of 60% of your annual need around June for all schools
  - The remaining 40% added around November
  - If you need more at any point you should contact COD
- Review COD website “Options” screen
  - Electronic process participation
  - eMPN, Counseling, PLUS App
- Reports
  - Delivery
  - Format
  - SAS
<table>
<thead>
<tr>
<th>StudentLoans.gov School Options (Non-Award Year Specific)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>eMPN Participation:</strong></td>
</tr>
<tr>
<td>Y</td>
</tr>
<tr>
<td><strong>LOR Required to complete eMPN:</strong></td>
</tr>
<tr>
<td>N</td>
</tr>
<tr>
<td><strong>eMPN Message:</strong></td>
</tr>
<tr>
<td>See the financial aid office if you have any questions</td>
</tr>
<tr>
<td><strong>Electronic Entrance Counseling Participant:</strong></td>
</tr>
<tr>
<td>Y</td>
</tr>
<tr>
<td><strong>Entrance Counseling Response Frequency:</strong></td>
</tr>
<tr>
<td>Daily</td>
</tr>
<tr>
<td><strong>Financial Awareness Counseling Response Frequency:</strong></td>
</tr>
<tr>
<td>On-Demand</td>
</tr>
<tr>
<td><strong>Exit Counseling Response Frequency:</strong></td>
</tr>
<tr>
<td>Daily</td>
</tr>
<tr>
<td><strong>School Name:</strong></td>
</tr>
<tr>
<td>(Applies to all StudentLoans.gov processes):</td>
</tr>
<tr>
<td>State University</td>
</tr>
<tr>
<td><strong>Associated States:</strong></td>
</tr>
<tr>
<td>(Applies to all StudentLoans.gov processes):</td>
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<tr>
<td>ARIZONA</td>
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COD – StudentLoans.gov
Award Year Specific

<table>
<thead>
<tr>
<th>StudentLoans.gov School Options (Award Year Specific)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Award Range Request 1:</td>
<td>08/2013 to 05/2014</td>
</tr>
<tr>
<td>Award Range Request 2:</td>
<td>01/2014 to 05/2014</td>
</tr>
<tr>
<td>Award Range Request 3:</td>
<td>05/2014 to 08/2014</td>
</tr>
<tr>
<td>Award Range Request 4:</td>
<td></td>
</tr>
<tr>
<td>Display &quot;Other&quot; Option:</td>
<td>Y</td>
</tr>
<tr>
<td>Participate in Electronic Parent PLUS Application:</td>
<td>Y</td>
</tr>
<tr>
<td>Electronic Parent PLUS Application Participation Date Range:</td>
<td>06/01/2013 to 08/01/2014</td>
</tr>
<tr>
<td>Parent PLUS Application Response Option:</td>
<td>Daily</td>
</tr>
<tr>
<td>Participate in Electronic Grad PLUS Application:</td>
<td>Y</td>
</tr>
<tr>
<td>Electronic Grad PLUS Application Participation Date Range:</td>
<td>07/26/2013 to 08/01/2014</td>
</tr>
<tr>
<td>Grad PLUS Application Response Option:</td>
<td>Daily</td>
</tr>
<tr>
<td>PLUS Application Message</td>
<td>An Endorser will need to complete the Endorser Addendum.</td>
</tr>
</tbody>
</table>
Unsubstantiated Cash Formula

• Beginning October 11, 2015
• **Unsubstantiated Cash Begin Date** will be added to the Cash Activity page on the COD Web site
• Field will record the date at which a financial cash activity transaction (i.e. Drawdown, Drawdown Adjustment, Payment) first becomes unsubstantiated
• Fully substantiated cash transactions will display as blank.
• Used to calculate the age of unsubstantiated cash, as reflected in the COD School Monitoring Report and on the COD Web site
30-Day Warning Report Renamed Direct Loan Booking Warning Report

- Beginning **October 11, 2015**
- **Note:** All warning reports produced prior to October 11, 2015 will retain the former name
- The data contained within the report will not change
- But will be parameter driven
COD School Monitoring Report

• Produced weekly if any of the following conditions occur:
  o Pell POP
  o 30-day reporting missed (should be 15 days anyhow!)
  o Unsubstantiated cash > 30 days
• Posted to your COD Newsbox (DL and Pell)
• Also sent to your SAIG Mailbox (SCHMONOP)

We check for those conditions weekly so schools should check for that report that often too
COD Website Newsbox

![COD Website Screenshot]

**COD Reports**

Selecting the link will open a separate browser window. You will be automatically logged into the COD Reports with the username you provided to the COD Website. Pop-Up blockers may prevent the window from opening, please be sure to turn off all Pop-Up blockers. If you are not automatically logged into COD Reports website, please contact the COD Customer Service Call Center.

- [https://codreports.cod.ed.gov](https://codreports.cod.ed.gov)
Newsbox – School Monitoring Report

- COD School Monitoring
- Direct Loan Actual Disbursement List Report (CSV) 2011-2012
- Direct Loan Actual Disbursement List Report (CSV) 2013-2014
- Direct Loan Completed Master Promissory Note Report (CSV)
- Direct Subsidized Loan Usage Change (CSV)
- Direct Loan Completed Plus Application Report (CSV)
- Direct Subsidized Loan Usage Limit (CSV)
- DL Entrance Counseling Report (CSV)
- Duplicate Student Borrower (CSV)
- Expired MPN Report
- Inactive Loans (CSV)
- Interest Rebate Percentage (CSV)
- MPNs Due to Expire Report
- Mpn Discharge Report
- Pending Disbursement List (CSV) 2011-2012
- Pending Disbursement List (CSV) 2012-2013
- Pending Disbursement List (CSV) 2013-2014
- Pending Disbursement List (CSV) 2014-2015
- Plus Loan Reconsideration (CSV)
- SSN-Name-Date of Birth Change (CSV)
COD Edits: Rejects & Warnings

- **Rejects** – record not built and will not be in Person/Award search on COD website
- **Warnings** – record was processed, FYI concerning your processing/timing
- Watch your rejects

Rejected disbursements = unsubstantiated funds
  - Use your software’s import edit report
  - Review batches on the COD website

*COD Technical Reference, Volume II, Section 4 - Edits*
## March Top Hits – Rejects & Warnings

<table>
<thead>
<tr>
<th>Edit</th>
<th>Some of the Top Edits</th>
<th># of Hits</th>
</tr>
</thead>
<tbody>
<tr>
<td>W-54</td>
<td>Disbursement Date Within 7 Days or Passed, Disbursement Release Indicator Set To “False”</td>
<td>1,682,760</td>
</tr>
<tr>
<td>R-205</td>
<td>PPSD is outside the Loan Period</td>
<td></td>
</tr>
<tr>
<td>W-55</td>
<td>Disbursement Information Received 30 Days after Date of Disbursement</td>
<td>459,271</td>
</tr>
<tr>
<td>W-199</td>
<td>HS Diploma or Equivalent Field on CPS does not match Student Eligibility Code submitted</td>
<td>302,917</td>
</tr>
<tr>
<td>R-050</td>
<td>Disbursement Date Outside Allowable Window</td>
<td></td>
</tr>
</tbody>
</table>

*COD Technical Reference, Volume II, Section 4*
Resolving Your COD Rejects

• Response
  o Work the Response when you import it

• Query your system for rejects
  o Most systems will keep resending rejected records until they are accepted

• COD website Batch Search functionality
  o Since rejected records were not “built” they will not be found in Person/Award Search
  o Batch Search will tell you what the rejects were
COD Batch Search

Enter school ID and date range (up to 60 days)

Or, enter SSN and choose specific award year or select all award years for complete history
1415 DL Program Year Closeout (PYCO)

- **Deadline 7/29/2016**
- Closeout completed on the COD website by submitting the Balance Confirmation form
- Made available when the School Account Statement (SAS) reflects $0 ending cash balance
- Schools missing the deadline and haven’t requested Extended Processing will be billed
- Cash management, disbursement reporting & monthly reconciliation requirements supersede PYCO deadline
PYCO Communications

- Notification Warning letter
  - to FAA and President
  - to schools that haven’t confirmed closeout
- Remaining Balance e-mail
- Zero Balance Confirmation letter/e-mail
  - sent when SAS reflects $0 ending cash balance
- School Balance Confirmation form – on COD website
  - is available once a Zero Balance Confirmation letter is sent
- Change in Zero Balance e-mail/letter
- **Program Year Closeout letter**
  - confirms PYCO is completed
- Reopen/Extended Processing letter
Reconciliation Do’s and Don’ts

• Congratulations on a smooth transition to all electronic DL refunds to G5. We’ve moved completely away from paper check refunds rather nicely. Well done.
• Too many drawdown adjustments done in G5 rather than reconciling. Moving an unreconciled balance from one year to another is a red flag. Why was it done? Can you show the funds really were inadvertently drawn from the wrong year?
• Negative cash balances: they sound great on the surface. We owe you money, you don’t want to draw it just yet. But be very sure it’s not masking Downward disbursement adjustments borrowers need sent on a timely bases (withdrawals, returning funds with 120 days).
• Cash Management regulatory deadlines supersede monthly reconciliation/close-out deadlines.
Extended Processing Requests are Up

Two big reasons to account for that:

1. **Unclaimed credit balances.** This is a big audit finding. Schools discover they hadn’t returned the funds to the program in the required timeframe (240 day max) and then sometime later realize it and need to re-open the year.

2. **SULA updates.** Implement a process to make sure:
   - Loan periods only contain terms/payment periods where the borrower received (and retained) funds
     - Pending disbursements probably need to be zeroed out
   - Loan amount is reduced to just what was actually disbursed
     - Most systems will block this unless anticipated disbursements are first reduced to zero.
   - Academic year must be school defined but at least 26 or 30 weeks and never a single term.
Report Readers

- Simplified way of importing some COD files into Excel
  - SAS Disbursement Detail on Demand
  - Pell Grant Reconciliation File
  - Pell Grant YTD File
- Readers & instructions
  - COD website “COD Resources”
- Request “fixed-length” files
Resources: New COD Communications Page

COD website

“File Share & Messages”

- File share
  - FSA e-mail campaigns with student-specific information
  - Customized reports
  - E-mail will alert schools to file availability

- Broadcast messages

1. Log into COD/ School tab/ School Summary Info page
2. File Share/Messages link on left side of page

Also, “Today’s Update” renamed “COD Resources”
COD Processing on 1/6/2015

COD alerted us that this one day’s processing of actual disbursement records totaled ... $5.2 Billion

- $700 Million in Pell
- $4.5 Billion in Direct Loans

These numbers are an all-time high of a single day’s processing.
Loan Servicer Survey Results

- Semi-annual
- Customer satisfaction and default prevention
- Results used to determine loan volume allocation 2/year
- Allocations for 9/1/15 – 2/29/16
- TIV Additional Servicers (TIVAS) measured against each other (distribution set at 74% of new volume)
- Not-for-Profit Servicers (NFP) measured against each other (distribution set at 26% of new volume)
Servicer Survey - continued

- Percent of new volume each TIVAS will receive
  - FedLoan Servicing (PHEAA): 23%
  - Great Lakes: 39%
  - Navient: 21%
  - Nelnet: 18%

- Percent of new volume each NFP will receive
  - CornerStone: 14%
  - ESA/Edfinancial: 19%
  - Granite State – GSMR: 15%
  - MOHELA: 24%
  - OSLA: 13%
  - VSAC Federal Loans: 15%
School Contacts

We need accurate school contact data

• Alerts from COD, FLSST, etc.
• From E-App in eligcert.ed.gov:
  o Financial Aid Administrator
  o Chief Financial Officer
  o School President
• Update directly on the COD Website:
  o Direct Loan Financial Aid Officer
  o Pell Financial Aid Officer
Questions?

Chuck.Hirman@ed.gov
(206) 615-3643

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