



## Questions & Answers on the Transition to 100 Percent Direct Lending

April 6, 2009

**President Obama's Fiscal Year 2010 budget proposes that, beginning July 1, 2010, all Stafford (subsidized and unsubsidized), PLUS, and Consolidation loans will be made from the William D. Ford Federal Direct Student Loan (Direct Loan) Program. Thus, ending, as of that date, any new loans made under the Federal Family Education Loan (FFEL) Program.**

This proposal would make college loans reliable, stable and efficient, thus eliminating uncertainty families have experienced due to the turmoil in the financial markets. All new student and parent loans would be provided directly from the federal government through the same electronic system that colleges use for Pell Grants. Taxpayers would save more than \$4 billion a year in reduced entitlement subsidies, funds that can be invested in more grant aid to students seeking a higher education. The Direct Loan Program would continue to use private sector companies to perform origination, servicing, loan collections, and related services through performance-based contracts with the Department of Education.

### **Has the FY 2010 Budget been approved?**

No. On February 26, President Obama submitted the Administration's proposed budget for FY 2010 to the Congress, which must act on the President's proposals.

### **Does the Department of Education have capacity to assume 100% of FFEL Loan Volume?**

Today, the Direct Loan program has ample capacity to assume significantly more origination volume with no impact to existing service levels and will be able to assume 100% of FFEL volume by the end of 2009. Currently, Direct Loan servicing can also assume significant more volume, including increased customer service activity. The Department is in the process of developing even more capacity over the next several months. These steps will mean that all aspects of the Direct Loan Program will be fully supported both prior to the start of 2010-2011 activity and when the program assumes 100% of the volume.

### **When will ALL Stafford, PLUS, and Consolidation loans be originated using the Direct Loan program?**

The budget proposal states that all Stafford, PLUS, and Consolidation loans made on or after July 1, 2010 be Direct Loans.

### **When would FFEL lenders stop making loans?**

The latest a loan under the FFEL Program would be made would be June 30, 2010. However, depending on the status of the President's proposal and other factors, some FFEL lenders may choose to withdraw from, or scale back their participation in, the FFEL Program earlier.

### **How soon will schools that currently participate in the FFEL Program be required to convert to the Direct Loan Program?**

If approved, the change will not be effective until July 1, 2010 (generally, the 2010-2011 school

year). However, schools should begin a review of their internal policies, business processes, and systems to determine what changes they will need to make, and when, for conversion to the Direct Loan Program.

### **Is conversion to and participation in the Direct Loan Program complicated and costly to a school?**

The process for a school to transition from FFEL to Direct Loans is relatively simple. First, the school must ensure that the Direct Loan Program is listed on its current Eligibility and Certification Approval Report (ECAR). If not, the school must submit to the Department a revised E-App at [www.eligcert.ed.gov](http://www.eligcert.ed.gov). Once approved, the school sends an e-mail to the COD School Relations Center requesting to actively participate in the Direct Loan Program.

Because the Department uses the same solution [the Common Origination and Disbursement (COD) System] to process Direct Loans as it does for the Pell Grant Program, a Pell Grant participating school will have little difficulty providing Direct Loan information to the Department instead of sending FFEL information to a lender or guaranty agency. Non- Pell schools will find that registering and using the COD system is very easy and uncomplicated.

Of course, the school must ensure that its systems and processes are, if necessary, modified for the Direct Loan Program. This may include the school informing its third party servicer and/or software vendor of the change. Most commercial software used by schools have both Direct Loan and FFEL modules, so working with their software vendors (or third-party servicers) schools should find that conversion will be relatively simple.

Direct Lending loan origination process should not be any more difficult or require any more school resources under Direct Loan Program than under the FFEL Program. Schools are not required to perform loan origination themselves - the Department's origination process provides for the creation, distribution, and processing of the electronic Master Promissory Notes (MPN), just as many FFEL lenders do. (A school may choose to undertake all or some of these processes themselves, but they are not required to do so.)

In further support of the Direct Loan Program, the Department provides web-based entrance and exit counseling just as most FFEL lenders do, so a school enrolling in the Direct Loan Program simply has to redirect students to the Department's website for these services.

### **Will training be offered to schools to help them switch to Direct Lending?**

Yes. The Department is planning a full training calendar to assist schools with this transition. Monitor the Information for Financial Aid Professionals ([IFAP](http://www.ifap.org)) Web site for training announcements that will provide training dates and registration information. In addition, the Department provides a convenient computer-based training program for schools new to the Direct Loan Program, and is prepared to help assist schools who may face a slightly more complicated conversion process because they use their own "home-grown" financial aid software. In many cases, the Department will be able to direct a school to other similar schools that have found a way to easily adapt their software to use the Direct Loan Program.



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