

# Direct Lending

## Frequently Asked Questions

Beginning in fall 2010, the University of South Carolina Beaufort will begin to participate in the William D. Ford Direct Loan program. Student and parent borrowers will receive funding for their federal student loans directly from the U.S. Department of Education rather than private banks and other lending institutions as they do now through the Federal Family Education Loan Program (FFELP). Below is a list of questions related to the Direct Loan Program that should help students and families understand how this program works.

▶ **Q. What are Direct Loans?**

A. Direct Loans are federally insured low-interest education loans for students and parents. These include the Direct Subsidized Loan, the Direct Unsubsidized Loan, the Direct Parent Loan for Undergraduate Students (PLUS) and the Direct Graduate PLUS Loan programs for graduate and professional students.

▶ **Q. Why is USCB changing to the Direct Loan Program?**

A. The Direct Loan Program will provide USCB students with a reliable source of educational loan funding. While volatility in the credit markets and reductions in lender subsidies have caused some lenders to stop making federal student loans or to stop offering borrower benefits and other services, the Direct Loan Program is not impacted by such changes in the economy and can therefore provide a stable and predictable loan process.

▶ **Q. Does this change impact me?**

A. If you are a new or continuing student or parent borrower who plans to borrow a federal loan for the 2010-2011 academic year, this change will affect you. After the 2009-2010 academic year, USCB will no longer process any loans through the Federal Family Education Loan Program.

▶ **Q. Does this change affect my current year federal loans? Also, what happens if I want to attend summer school?**

A. All current year and 2010 summer session loans will be processed through the current Federal Family Education Loan – Stafford Loan process. Your first Direct Loan will be for the fall 2010 semester.

▶ **Q. Will other student aid programs such as federal and state grants be affected by what is happening with student loans?**

A. No, those programs are not affected.

▶ **Q. What is the difference between Direct Loans and the Federal Family Education Loan Program (FFELP)?**

A. The primary difference between Direct Loans and the Federal Family Education Loan Program, (Stafford Loan) is the source of funding. While FFELP loans are funded through a variety of banks and private lending institutions, Direct Loan funds are borrowed directly from the federal government. Additionally, with Direct Loans borrowers have a single contact, the Direct Loan Servicing Center, for everything related to the repayment of the loan.

▶ **Q. Are there any differences in interest rates and fees between the two programs?**

A. The interest rate for Federal PLUS Loans is 7.9% in the Direct Loan program (compared to 8.5% in the FFEL program). Interest rates for Federal Unsubsidized and Subsidized Loans are the same in both programs. See the following chart for a comparison of fees between the two programs:

Loan Type	Gross Fee	Minus Rebate*	Equals Net Fee Charged for 2010-2011
Direct Student Loan—Federal	1.5%	1%*	.5%

FFEL—Federal Stafford	.5% to 1.5% (varies by lender)	N/A	.5% to 1.5% (varies by lender)
Direct Loan—PLUS	4%	1.5%	2.5%
FFEL—PLUS	3% to 4% (varies by lender)	N/A	3% to 4% (varies by lender)

\*The upfront rebate reduces the fee you pay at origination. If you don't make your first 12 monthly payments on-time, the rebate amount will be added to your principal balance.

▶ **Q. What do I need to do to receive a federal loan for 2010-2011?**

A. Students will continue to complete the Free Application for Federal Student Aid (FAFSA) on the web, as they've done in the past. Just indicate "student loans" when asked "in addition to grants, are you interested in being considered for work-study or student loans" on the FAFSA. Parents who wish to use the PLUS loan (or the Graduate PLUS loan if you are a graduate or professional student) will need to complete a separate PLUS loan application. We will have more information about this process in the weeks to come.

▶ **Q. Do I have to complete another Master Promissory Note?**

A. Yes, you must sign a new Direct Loan Master Promissory Note (MPN) because you will be borrowing from a new lender, the Federal Department of Education.

▶ **Q. Can I complete my new Master Promissory Note now?**

A. Yes! You may choose to complete your new Direct Loan MPN at any time, even before you've received your award letter! This process can be completed online at <https://dlenote.ed.gov/empn/index.jsp>. You will need your federal PIN in order to electronically sign your MPN. This is the same PIN you use to sign the FAFSA. More information on your PIN is available online at <http://www.pin.ed.gov/PINWebApp/pinindex.jsp>.

▶ **Q. I have previously completed entrance counseling under the FFELP program. Do I have to complete entrance counseling for Direct Loan?**

A. No, if you have previously completed entrance loan counseling for the Federal Stafford Loan Program, you will not be required to complete it for the Direct Loan Program. Only new borrowers are required to complete entrance counseling.

▶ **Q. I am a parent. I plan to borrow a PLUS Loan for my student in 2010-2011. I usually get pre-approved through my lender. What should I do this year?**

A. You will borrow through the Direct Loan program as well. We will have more information about this process in the weeks to come.

▶ **Q. Will I still be able to continue borrowing through the same lender as last year?**

A. No. If you wish to receive a federal student loan for the 2010-2011 academic year, you will be required to borrow through the Direct Loan program.

▶ **Q. What will happen to the existing loans that I have borrowed with other lenders? Will I have to repay two different lenders now?**

A. Any loan(s) you borrowed from another lender either here at USCB or at another institution will be maintained by the lender/servicer with whom you signed your original MPN. Your Direct Loan will be serviced by the Department of Education. You will receive correspondence and payment information from both the Department of Education and your prior lender/servicer.

Once you graduate or choose not to attend school at least half time, you will have the option to combine your existing federal education loans into one new loan with the Federal Consolidation Loan Program. With a consolidation loan, you will have only one payment to make each month and one lender. However, there are situations in which consolidation won't be the best repayment alternative. We encourage you to contact your prior lender for more information about repayment before you consolidate. To learn more about consolidation, use this web site: <http://www.studentaid.ed.gov/PORTALSWebApp/students/english/consolidation.jsp?tab=repaying> You may review all of your loans at the student access website for the National Student Loan Data System at [http://www.nslds.ed.gov/nslds\\_SA/](http://www.nslds.ed.gov/nslds_SA/).