Understanding Federal Direct Consolidation Loans

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UNDERSTANDING FEDERAL DIRECT & SPECIAL CONSOLIDATION LOANS

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Should A Student Consolidate?

- **Are monthly payments manageable?** If students are having trouble meeting monthly payments, have exhausted deferment and forbearance options, and want to avoid default, a Direct Consolidation Loan may help.

- **Too many monthly payments?** If students are sending payments to more than one lender every month and want the convenience of a single monthly payment, consolidation is an option.

- **What are the interest rates?** If students have variable interest rates on federal education loans, they may want to consolidate. The interest rate for a Direct Consolidation Loan is fixed for the life of the Direct Consolidation Loan. The rate is based on the weighted average interest rate of the loans being consolidated, rounded to the next nearest higher one-eighth of one percent and can not exceed 8.25 percent.

- **How much is the student willing to pay over the long term?** Like a home mortgage or a car loan, extending the years of repayment increases the total amount to repay.

- **How many payments are left on the loans?** If a student is close to paying off their student loans, it may not be worth the effort to consolidate or extend payments.

Benefits of Federal Direct Loan Consolidation

- **One Lender and One Monthly Payment**
  Borrowers have only one lender, the U.S. Department of Education, and one monthly payment due for all loans included in a Direct Consolidation Loan.

- **Flexible Repayment Options**
  Borrowers can choose from multiple repayment plans with various terms to repay their consolidation loan(s), including an Income Contingent Repayment and an Income-Based Repayment Plan. These plans are designed to meet the different and changing needs of borrowers. Borrowers can switch repayment plans at anytime. If borrowers select the IBR Plan and want to change at a later date, their only option will be the Standard Plan.

- **No Minimum or Maximum Loan Amounts or Fees**
  There is no minimum amount required to qualify for a Direct Consolidation Loan. In addition, consolidation is *free.*

- **Varied Deferment Options**
  Borrowers with consolidation loans may qualify for renewed deferment benefits. If borrowers have exhausted the deferment options on their current federal education loans, a consolidation loan may renew those deferment options. In addition, borrowers may be eligible for additional deferment options when they obtain their first Direct Loan if they have an outstanding balance on a FFEL Program loan made before July 1, 1993.

- **Reduced Monthly Payments**
  A consolidation loan *may* ease the strain on a borrower's budget by lowering the borrower's overall monthly payment. The minimum monthly payment on a consolidation loan may be lower than the combined payments charged on a borrower's federal education loans.

- **Retention of Subsidy Benefits**
  There are two possible portions to a consolidation loan, subsidized and unsubsidized. Borrowers retain their subsidy benefits on loans that are consolidated into the subsidized portion of a consolidation loan.

Who Is Eligible?

- Borrowers must have at least one Direct Loan or Federal Family Education Loan (FFEL) that is in grace, repayment, deferment or default status. Loans that are in an in-school status cannot be included in a Direct Consolidation Loan.

- Borrowers can consolidate most defaulted education loans, if they make satisfactory repayment arrangements with the current loan holders or agree to repay their new Direct Consolidation Loan under the Income Contingent Repayment Plan.

- Borrowers who do not have Direct Loans may be eligible for a Direct Consolidation Loan if they include at least one FFEL Loan **OR** intend to apply for loan forgiveness under the Public Service Loan Forgiveness Program.

- Borrowers who have only a Direct Consolidation Loan cannot consolidate again unless they include an additional loan.

- **NOTE:** The Direct Loan Servicing Center has information on the Public Service Loan Forgiveness Program.

Eligible Loans

The following federal education loans are eligible for consolidation into a Direct Consolidation Loan:

- Subsidized Loans
- Subsidized Federal Stafford Loans
- Direct Subsidized Loans
- Subsidized Federal Consolidation Loans
- Direct Subsidized Consolidation Loans
- Federal Insured Student Loans (FISL)
- Guaranteed Student Loans (GSL)
- Unsubsidized Loans:
- Unsubsidized and Nonsubsidized Federal Stafford Loans
- Direct Unsubsidized Loans, including Direct Unsubsidized Loans (TEACH) (converted from TEACH Grants)
- Unsubsidized Federal Consolidation Loans
- Direct Unsubsidized Consolidation Loans
- Federal PLUS Loans (for parents or for graduate and professional students)
- Direct PLUS Loans (for parents or for graduate and professional students)
- Direct PLUS Consolidation Loans
- Federal Perkins Loans
- National Direct Student Loans (NDSL)
- National Defense Student Loans (NDSL)
- Federal Supplemental Loans for Students (SLS)
- Parent Loans for Undergraduate Students (PLUS)
- Auxiliary Loans to Assist Students (ALAS)
- Health Professions Student Loans (HPSL)
- Health Education Assistance Loans (HEAL)
- Nursing Student Loans (NSL)
- Loans for Disadvantaged Students (LDS)

Ineligible Loans

Some loans are always ineligible for consolidation. While these loans may not be included in a Direct Consolidation Loan, they may be considered in the calculation of the maximum repayment period under the Graduated or Extended Repayment Plan.

These include but are not limited to the following:

- Loans made by a state or private lender and not guaranteed by the federal government
- Primary Care Loans
- Law Access Loans
- Medical Assist Loans
- PLATO Loans

How Do Students Apply?

- Online Web Application: Apply online. Visit the Application and Promissory Note Home Page, **https://loanconsolidation.ed.gov/AppEntry/apply-online/appindex.jspxpress**

- **Phone Application:** 1.800.557.7392. Apply over the phone if you have all Direct Loans.

- Download a paper copy of the application and promissory note: including the complete contents of the application package.

OR

- Request an application package be mailed:

  - Phone at 1.800.557.7392, 8AM to 8PM (EST)
    (TDD 1.800.557.7395) or 334.206.7400 outside USA

  - E-mail at loan_consolidation@mail.eds.com

What is The School’s Role in Consolidation?

- **Consolidation loan counseling:** Counseling helps borrowers become aware of ALL their debt management options. Schools are the biggest link in the communication "chain" with student loan borrowers. You can help your students:

  - Determine if consolidation is right for them;

  - Provide easy access to information, resources, and material that help them make educated debt management decisions. Examples: Direct Consolidation web site, online calculator, customer service (800-557-7392), contact information for FFEL lenders, National Student Loan Data System (NSLDS), etc.

- **Timely completion of verification certificates:** When a borrower wants to include a Perkins Loan in a consolidation, a verification certificate is mailed to your school for completion. The verification certificate should be completed and returned to the Loan Origination Center within 10 days. The borrower's loans cannot be consolidated until the verification certificate is properly completed and returned. (See "How Do I Certify Loan Verification Certificates?")

- T**imely application of Perkins Loan payoffs:** All Perkins Loan payoffs should be processed as quickly as possible. (See "How does the Department Pay Off a Borrower's Loan?")

- **Timely resolution of overpayments and underpayments:** If a Perkins Loan account is underpaid or overpaid, follow the appropriate overpayment and underpayment guidelines to ensure that the borrower's account is paid in full. (See "How do I Request an Underpayment or Return an Overpayment?" or "What are the Tolerances for Under and Over Payments?")

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How Does Consolidation Affect a Borrowers Loan Limits?

- When a student has a consolidation loan, the school can determine his or her remaining loan eligibility by using the original principal loan amount minus any payments made.

  Note: *The outstanding balance on the subsidized and unsubsidized portions of the consolidation loan is considered when determining the borrower's subsidized and unsubsidized loan limits. For example, if a consolidation loan contains an unsubsidized portion, the outstanding balance on the unsubsidized portion of the consolidation is considered in determining the borrower's unsubsidized loan limit.*

- Schools can determine the subsidized and unsubsidized portion of the consolidation loan by:
  - Reviewing the borrower's consolidation paperwork
  - Contacting the Loan Origination Center/ Loan Consolidation Department
  - Using the National Student Loan Data System (NSLDS)

- If data is available on NSLDS, schools may be able to view the underlying loans in the consolidation loan to determine the loan type. Schools can access NSLDS online and find the loans that were paid off through consolidation by selecting all loans with a status code of PC (paid through consolidation).

- Once the school has determined the types and original amounts of the underlying loans, it must pro-rate the outstanding principal balance amount on the consolidation loan in the same ratio that each of the "PC" original loan amounts is to the original consolidation loan amount. For example, assume that a borrower's original principal balance was composed of 25% subsidized loans and 75% unsubsidized loans. The school can assume that 25% of any remaining unpaid balance is subsidized and would be counted towards the borrower's subsidized aggregate loan limit and 75% towards the borrower's unsubsidized aggregate loan limit.

Does Consolidation Affect My School's Default Ratio?

- "Federal Consolidation Loans and Federal Direct Consolidation Loans are not counted directly in the cohort default rate calculation. However, the status of a consolidation loan may affect how the loan(s) that was paid off by the consolidation loan is included in the cohort default rate calculation.“

- If all of a borrower's underlying loans were included in your school's cohort default rate calculation before they were consolidated, the status of the consolidation loan has no effect on your subsequent cohort default rate calculations. However, if an underlying loan was not included in your cohort default rate calculation before it was consolidated, the consolidation loan's default may cause that underlying loan to be counted as defaulted when it is included in your cohort default rate.

Common Student FAQs

Can I consolidate a Perkins Loan?

- Yes, it is possible to consolidate Perkins Loans into a Direct Consolidation Loan if borrowers include at least one Direct Loan or Federal Family Education Loan (FFEL) in their request. Perkins Loans cannot be included in a Direct Consolidation Loan by themselves. Furthermore, all Perkins Loans consolidated into the Direct Loan Program will be included in the unsubsidized portion of the Direct Consolidation Loan.

- Borrowers should carefully weigh the advantages and disadvantages of including a Perkins Loan in a consolidation loan.

- It is recommend that students consider the following points prior to making a decision:

  - Perkins Loans are eligible for additional cancellation benefits, such as performing certain kinds of public service. This benefit is lost when a Perkins Loan is included in a Direct Consolidation Loan.

  - Perkins Loans have a grace period of 6-9 months. When a Perkins loan is consolidated, any remaining grace period is lost.

  - Interest does not accrue when a Perkins Loan is placed in deferment. Since a Perkins Loan is included in the unsubsidized portion of a Direct Consolidation Loan, borrowers are responsible for interest that accrues throughout the deferment period.

  - Perkins Loans generally have a lower interest rate but have a less flexible repayment period of 10 years.

Common Student FAQs Continued…

Can I Consolidate a Defaulted Loan?

- Generally, federal education loan(s) in default may be consolidated in a Direct Consolidation Loan if borrowers:
  - Agree to repay the loan(s) under the Income Contingent Repayment Plan.

  OR

  - Make satisfactory repayment arrangements with the current loan holder(s).

**If, before applying for consolidation, borrowers who want to completely clear the default notation from their credit records, may want to consider another option: loan rehabilitation. Borrowers should contact their loan holders to obtain more information about this option.*

- Borrowers cannot consolidate defaulted loans under these conditions:
  - If a judgment has been issued against a defaulted loan, it cannot be included in the consolidation unless the judgment order has been vacated (dismissed).
  - If they are trying to consolidate defaulted Direct Consolidation Loans.
  - If they are trying to consolidate defaulted FFEL Consolidation Loans unless they have made satisfactory repayment arrangements with their current loan holder OR the borrowers agree to repay under the Income Contingent Repayment Plan.
  - If they are trying to consolidate defaulted Perkins or health professions loans unless they have made satisfactory repayment arrangements with their current loan holders.

FAQs Continued…

What is the Income-Based Repayment Plan (IBR)?

- Your monthly payments will be based on annual income and family size, and spread over a term of up to 25 years. You must be experiencing a partial financial hardship to initially select this plan. Once you select this plan, you cannot change to any other plan except the Standard Plan.

- If you consolidate more than one loan type (subsidized, unsubsidized and PLUS) ,you will have one Direct Consolidation Loan with up to two parts: Direct Subsidized and Direct Unsubsidized (which includes PLUS) Consolidation Loans. Even with up to two parts of each Direct Consolidation Loan, you make only one payment each month.

How long does it take to consolidate my loans once I submit my application?

- The consolidation process generally takes 60-90 days. Using our online Web application can reduce the amount of time it takes to consolidate a borrower's loan.

Public Service Loan Forgiveness Program

- Created to encourage individuals to enter and continue to work full-time in public service jobs.

- May qualify for forgiveness of the remaining balance due on your eligible federal student loans after you have made 120 payments on loans under certain repayment plans while employed full time by certain public service employers.

- Only non-defaulted loans made under the William D. Ford Direct Loan Program are eligible for loan forgiveness. The Direct Loan Program includes the following types of loans:

    - Federal Direct Stafford Loans (Direct Subsidized Loans)

    - Federal Direct Unsubsidized Stafford Loans (Direct Unsubsidized Loans)

    - Federal Direct PLUS Loans (Direct PLUS Loans)- for parents and graduate or professional students

    - Federal Direct Consolidation Loans (Direct Consolidation Loans)

Note: Only payments made on the Direct Consolidation Loan will count toward the required 120 monthly payments. Payments made prior to consolidation are not eligible.

Public Service Loan Forgiveness Program

The 120 required payments must be made under one or more of the following Direct Loan Program repayment plans:

- Income Based Repayment (IBR) Plan
- Income Contingent Repayment Plan
- Standard Repayment Plan with a 10-year repayment period
- Any other Direct Loan Program repayment plan, but only payments that are at least equal to the monthly payment amount that would have been required under the Standard Repayment Plan with a 10-year repayment period may be counted toward the required 120 payments.

Special Direct Consolidation Loans

Special Direct Consolidation Loans to eligible borrowers, beginning in January 2012. This is a short-term consolidation opportunity, ending June 30, 2012, for borrowers with

- at least one student loan held by the Department (a Direct Loan or a Federal Family Education Loan [FFEL] owned by the Department and serviced by one of the Department's servicers); **and**

- at least one commercially-held FFEL loan (a FFEL loan that is owned by a FFEL lender and serviced either by that lender or by a servicer contracted by that lender).

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Special Direct Consolidation Loans

- **Who is eligible for a Special Direct Consolidation Loan?**

  You must have at least one loan owned by the Department of Education and at least one commercially-held FFEL loan to qualify for a Special Direct Consolidation Loan.

- **What federal student loans are eligible for the Special Direct Consolidation Loan program?**

  While you must have both a Department-owned loan and a commercially-held FFEL loan to be eligible, ONLY your commercially-held FFEL loans are eligible for consolidation under this initiative. These include:

  FFEL Subsidized and Unsubsidized Stafford Loans;

  FFEL PLUS Loans (both those taken out by graduate/professional students and those taken out by a parent to pay for the costs of an undergraduate student); and

  FFEL Consolidation Loans

  In order to be eligible for consolidation under this initiative, these loans *must be* in grace, repayment, deferment, or forbearance.

Special Direct Consolidation Loans

The following loans are ineligible for this program:

FFEL loans in default or subject to a bankruptcy proceeding;

Perkins Loans;

Health Education Assistance Loans (HEAL), Health Professions Student Loans (HPSL), Nursing Student Loans (NSL), Loans for Disadvantaged Students (LDS); and

Private student loans

How will the Special Direct Consolidation Loan Process work?

- Eligible borrowers will be contacted by one of four federal loan servicers starting in January 2012. Given the number of eligible borrowers, these contacts will occur over several weeks.
- The servicers that will contact eligible borrowers are FedLoan Servicing (PHEAA), Great Lakes Educational Loan Services, Inc., Nelnet, and Sallie Mae.
- The servicers will provide eligible borrowers with application instructions.
- After receiving application instructions from a servicer, eligible borrowers will apply through a new and different online process.
- Borrowers who choose to apply for a Special Direct Consolidation Loan ***must not apply through the traditional Direct Consolidation Loan Web site (http://loanconsolidation.ed.gov).***

What will a borrower gain by obtaining a Special Direct Consolidation Loan?

- One servicer and one payment for the borrower’s eligible loans, as opposed to one or more servicers with multiple bills and varying repayment requirements. (Some federal student loans and all commercially-held “private” student loans are not eligible for the Special Direct Consolidation Loan opportunity.)
- For commercially-held FFEL loans that are consolidated, a 0.25 percent reduction from each loan's existing interest rate at the time of consolidation, plus the opportunity to receive an additional 0.25 percent interest rate reduction if automatic debit is chosen for repayment.
- For commercially-held FFEL loans with a variable interest rate at the time of consolidation, the conversion to a fixed interest rate at the lower percentage that will not change over time.

What will a borrower gain by obtaining a Special Direct Consolidation Loan?

- No loss to previous time in repayment; it will count towards the repayment term for the new Special Direct Consolidation Loan.
- No loss of credit for Income-Based Repayment (IBR) payments made prior to consolidation; they will count towards the required 25 years of payments for IBR loan forgiveness.
- Commercially-held FFEL loans that are consolidated into a Special Direct Consolidation Loan will be eligible for the Public Service Loan Forgiveness Program, a benefit available only in the Direct Loan Program.
- Continuation of deferment or forbearance status, if an eligible loan is in that status at the time of consolidation.

How are Special Direct Consolidation Loans different than traditional Direct Consolidation Loans?

	Traditional Direct Consolidation Loan	Special Direct Consolidation Loan
Repayment Term	The repayment term for the loan starts over, giving students longer to repay their loan. A longer repayment term may result in lower monthly payments but will ultimately increase the amount the borrower will pay over the life of the loan since more interest will accrue during a longer repayment period.	Each loan that is consolidated retains its original repayment term. As a result, borrowers will pay less interest over the life of the loan than they would under the traditional consolidation program.
Interest Rate	A fixed rate based on the weighted average of the interest rates of those loans being consolidated rounded up to the nearest one-eighth of 1%, not to exceed 8.25%.	A fixed rate (not to exceed 8.25%) after applying the 0.25% interest rate reduction to the FFEL loans being consolidated.
Electronic Debit Benefit	Eligible for a 0.25% interest rate reduction if the loan is repaid through the Department's automatic debit system.	Eligible for an additional 0.25% interest rate reduction if the loan is repaid through the Department's automatic debit system.

Special Direct Consolidation Loans

Where can I get more information about Special Direct Consolidation Loans?

If you have further questions about Special Consolidation Loans, you can call 1-800-4-FED-AID (1-800-433-3243) for more information.

Information presented on Special Loan Consolidation came from: http://studentaid.ed.gov/PORTALSWebApp/students/english/specialconsolidation.jsp

Questions?

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