

Special Direct Consolidation Loan Initiative Q&A

Introduction

The U.S. Department of Education (the Department) is offering a Special Direct Consolidation Loan initiative to eligible borrowers that began January 2012. This is a short-term consolidation opportunity, ending June 30, 2012. Four of the federal loan servicers (FedLoan Servicing – PHEAA, Great Lakes Educational Loan Services, Inc., Nelnet, and Sallie Mae) are contacting borrowers that were determined eligible by the Department, and providing them with instructions for the new online application process. These borrower contacts began January 17, 2012.

This is not a traditional consolidation loan. A borrower must have at least one eligible federally-held loan (Direct or PUT) and at least one eligible commercially-held FFEL loan to participate in the Special Direct Consolidation Loan initiative. Although the federally-held loans will be used to determine the borrower's eligibility for the Special Direct Consolidation Loan initiative, only eligible commercially-held FFEL loans selected by the borrower will be consolidated under this initiative. The Special Direct Consolidation Loan initiative is intended to help borrowers manage their student loan debt by ensuring all of their federal loans are serviced by the same loan servicer, resulting in one bill and one payment.

Additional information is available from Department communications (published October 26, 2011, November 23, 2011, December 28, 2011, January 13, 2012, January 18, 2012 and January 20, 2012) and on the Department's web site at:

<http://studentaid.ed.gov/PORTALSWebApp/students/english/specialconsolidation.jsp>

General Eligibility

General

Q#1: Do the loan status requirements for the commercially-held FFEL loan(s) apply at the borrower level or only at the loan level?

A#1: The status requirements apply at the loan level. For example, a borrower may have one commercially-held FFEL loan in default (270 or more days delinquent) that would not qualify for the Special Direct Consolidation Loan and one commercially-held FFEL loan that is not in default that would qualify. Borrowers should be encouraged to continue making regularly scheduled payments on their commercially-held FFEL loans while the Special Direct Consolidation Loan is being processed to avoid default. (Refer to A#13)

Loan Types

Q#2: Are SLS loans eligible?

A#2: Yes.

Q#3: Are spousal consolidation loans eligible?

A#3: No.

Q#4: Does a commercially-held FFEL loan that is repaid by the Special Direct Consolidation Loan initiative retain its original loan type (e.g., a Stafford loan becomes a Direct Stafford loan), or does it become a Direct Consolidation loan?

A#4: It becomes a Direct Consolidation loan with unique terms and conditions.

A#5: What NSLDS code will be assigned to the loans consolidated under the Special Direct Consolidation Loan initiative?

A#5: The process will function the same as the traditional Direct Consolidation Loan process; the new consolidation loans will be reflected with the following codes on NSLDS: D5 (Direct Consolidated Unsubsidized), D6 (Direct Consolidated Subsidized), and D7 (Direct PLUS Consolidated). Each of the loans will be identified as a separate Direct Consolidation loan on NSLDS. There will be no change to how guaranty agencies report the appropriate status to NSLDS - paid in full by consolidation.

In-School Status

Q#6: Can a borrower waive the in-school status on a commercially-held FFEL Stafford loan(s) to consolidate the loan under the Special Direct Consolidation Loan initiative?

A#6: No. A borrower may not consolidate his or her commercially-held FFEL Stafford loans under the Special Direct Consolidation Loan initiative while such loans are in an in-school status. Such loans must be in the grace period, or in repayment, deferment or forbearance status.

Q#7: If the borrower has a federally-held Stafford loan(s) or a commercially-held FFEL Stafford loan(s) that is still in an in-school status, can the loan(s) be consolidated under the Special Direct Consolidation Loan initiative?

A#7: It depends on which of the borrower's Stafford loans is in an in-school status. If the borrower has a federally-held Stafford loan(s) in an in-school status, the borrower's commercially-held FFEL Stafford loan(s) would qualify for the Special Direct Consolidation Loan initiative. However, a commercially-held FFEL Stafford loan(s) in an in-school status does not qualify for this initiative. (Refer to A#6 above.)

Q#8: If the federally-held loan is in an in-school status, but the commercially-held FFEL loan is in a deferment status, is the commercially-held FFEL loan eligible for the Special Direct Consolidation Loan?

A#8: Yes. (Refer to A#6 and A#7 above.)

Grace Period

Q#9: Can a borrower consolidate commercially-held FFEL loan(s) under the Special Direct Consolidation Loan initiative during the grace period?

A#9: Yes. (Refer to A#6 above.)

Q#10: Will a borrower who consolidates commercially-held FFEL loan(s) under the Special Direct Consolidation Loan initiative during the grace period retain the remainder of the grace period?

A#10: No. The remainder of the grace period will be forfeited at the point the loan(s) is consolidated.

Non-Default Claims

Q#11: At what point does a loan in a non-default claim status (e.g., total and permanent disability, closed school, false certification, unpaid refunds, etc.) become ineligible for the Special Direct Consolidation Loan initiative?

A#11: At the time the claim is filed by a lender/servicer.

Bankruptcy

Q#12: Can a loan on which the borrower is seeking bankruptcy discharge be consolidated under this initiative?

A#12: No. This includes bankruptcies where a claim will not be filed.

Default

Q#13: Are defaulted loans eligible for the Special Direct Consolidation Loan initiative?

A#13: No. A loan that is in default (270 or more days delinquent) is ineligible for this initiative. A borrower must have at least one eligible federally-held loan (Direct or PUT) and at least one eligible commercially-held FFEL loan to participate in the Special Direct Consolidation Loan initiative. However, the borrower may work with his or her servicer to bring the loan to less than 270 days delinquent. Also note that a loan that defaulted but was subsequently rehabilitated is eligible for this program.

Conduit Loans

Q#14: Are loans in the Conduit eligible to be included in the Special Direct Consolidation Loan initiative?

A#14: Yes.

Deferment

Q#15: If a commercially-held FFEL loan(s) is in the middle of a pre-7/1/93 deferment period (e.g., Targeted Teacher, Peace Corps, Volunteer in a Tax Exempt Organization, and Public Health Service) at the time of the consolidation, will the remainder of that pre-7/1/93 deferment period be applied to the Special Direct Consolidation Loan?

A#15: Yes. A loan that is in a deferment status when it is consolidated under this initiative will remain in that status until the authorized deferment period ends.

Repayment

Q#16: Will the repayment plan that is in effect at the time the commercially-held FFEL loan is consolidated remain in effect once the loan is repaid under the Special Direct Consolidation Loan initiative?

A#16: It depends. Borrowers will be required to choose a repayment plan when they apply for the Special Direct Consolidation Loan. Borrowers may choose to remain on the same repayment plan, or choose a different repayment plan. According to the information published, however, the repayment period of the Special Direct Consolidation loan will not be reset.

Q#17: Will the borrower be allowed to choose another repayment plan for the Special Direct Consolidation Loan, such as IBR, graduated, or extended?

A#17: Yes. The borrower may choose another plan subject to the applicable terms of that plan. Note that certain repayment plans (e.g. Income Sensitive) are not available under the Direct Loan program. As a reminder, if the borrower wishes to consolidate a parent PLUS Loan, or a Consolidation Loan that repaid parent PLUS loans, that Consolidation Loan may not be repaid under the IBR Plan. However, the loan can be repaid under the ICR Plan.

Q#18: If the borrower selects multiple commercially-held FFEL loans to be consolidated under the Special Direct Consolidation Loan initiative, will these be combined into one Special Direct Consolidation Loan?

A#18: Each individual commercially-held FFEL loan will become a Special Direct Consolidation Loan; each portion may have different terms and conditions. The end result will be one monthly bill and one monthly loan payment. Refer to information on the following site:
<http://studentaid.ed.gov/PORTALSWebApp/students/english/specialconsolidation.jsp>

Traditional Consolidation

Q#19: Once the borrower consolidates his or her commercially-held FFEL loan(s) under the Special Direct Consolidation Loan initiative, will the loan(s) then be eligible for consolidation into a "traditional" Direct Consolidation Loan for a longer term?

A#19: Yes.

Prepayments

Q#20: If a borrower has made any prepayments that advanced the due date on the commercially-held loan, how does that impact the repayment start date of the Special Direct Consolidation Loan?

A#20: Per the Department of Education, the repayment of a Special Direct Consolidation Loan will begin immediately upon consolidation.

IBR

Q#21: Will the borrower's IBR information prior to the time the loan(s) is consolidated carry over and continue after the loan is consolidated under the new program, including the number of payments already made toward loan forgiveness, etc.?

A#21: Yes. Because the repayment period does not restart on the consolidation loan, IBR payments made and months of Economic Hardship deferment received prior to consolidating under this initiative will continue to count toward the 25 years required for loan forgiveness.

Interest Rate

Q#22: How will the interest rate be determined on a commercially-held FFEL loan(s) consolidated under the Special Direct Consolidation Loan?

A#22: As with the traditional Direct Consolidation Loan process, the Department will use a Loan Verification Certificate (LVC) to collect certain information-including the interest rate from the FFELP lenders or lender servicers of the loans that a borrower wishes to consolidate under the Special Direct Consolidation Loan initiative. For the purpose of Special Direct Consolidation Loans, the current annual interest rate is the interest rate that the lender or lender servicer is using to calculate interest on the loan at the time the lender or lender servicer completes the LVC. The current rate reflects any adjustments to the statutory interest rate on the loan because the borrower is repaying through automatic debit and/or the borrower is receiving any other interest rate reductions (e.g. due to borrower making on-time payments; borrowers on active duty military service with loans that are subject to a limitation on the interest rate in accordance with the Servicemembers Civil Relief Act (SCRA)).

For variable rate commercially-held FFEL loans, the interest rate will be 'fixed' at the rate certified by the lender as of the date the loan is consolidated under the Special Direct Consolidation Loan initiative.

The interest rate is reduced by a 25 basis point reduction at the time of consolidation, plus the borrower also has the opportunity to receive an additional 25 basis point reduction if the borrower chooses automatic debit for repayment.

Q#23: Will the Department honor any awarded borrower benefit on the commercially-held FFEL loan(s), even if the continuation of the benefit is contingent upon future borrower behavior (continued on-time payments, annual recertification, SCRA, etc.)?

A#23: Yes. The current rate, regardless of how it was achieved, will lock in as the permanent fixed interest rate on the loan under the Special Direct Consolidation Loan initiative, without any future maintenance requirements. So, SCRA borrowers, for example, will lock in at 6%, less 25 basis points, for the life of the loan. And, borrowers who were already awarded an incentive that was contingent upon continued on-time payments will not lose the benefit if they subsequently become delinquent.

Q#24: If a borrower has not yet earned, but is still working toward, an incentive benefit on the commercially-held FFEL loan at the time the borrower enters the Special Direct Consolidation Loan initiative (e.g. a future tier of an already-awarded benefit), will the Department allow this to continue and award the future benefit when the required number of on-time payments (or additional on-time payments) is achieved?

Q#24: No. The interest rate on the Special Direct Consolidation Loan will be fixed at the current interest rate on the commercially-held FFEL loan as certified by the lender, less 25 basis points.

Q#25: Which loans are eligible for the 25 basis-point interest rate reduction?

A#25: Commercially-held FFEL loans included in the Special Direct Consolidation Loan initiative qualify for the 25 basis point reduction. This 25 basis point reduction will be applied to the loan's *existing interest rate* at the time the loan is consolidated under this initiative. The existing interest rate is the rate the lender or servicer is using to calculate interest on the loan at the time the loan is certified. This may be a reduced rate based on certain borrower benefits, such as the use of the auto-debit payment method or a specified number of on-time payments. Add-On loans submitted before or after July 1, 2012, and within the 180-day window of the disbursement date of the Special Direct Consolidation Loan also qualify for the 25 basis point interest rate reduction.

Q#26: How will the fixed interest rate be determined for a variable rate commercially-held FFEL loan(s) upon receipt of the Special Direct Consolidation Loan application?

A#26: The interest rate will be 'fixed' at the rate as certified by the lender, less 25 basis points, effective the date the loan is consolidated under the Special Direct Consolidation Loan initiative. The rate will not be rounded up and no weighted average rate will be calculated.

Q#27: Will each loan that enters the Special Direct Consolidation Loan initiative have a weighted average rate or will each loan that is consolidated under this program retain its own individual rate?

A#27: Each individual loan will retain its own fixed rate, as calculated above.

Q#28: Will a commercially-held FFEL subsidized Stafford loan (or subsidized portion of a FFEL Consolidation loan) that is consolidated under the Special Direct Consolidation Loan initiative retain its interest subsidy?

A#28: Yes.

Application Process

Q#29: How will a borrower apply for the Special Direct Consolidation Loan?

A#29: One of four federal loan servicers (Sallie Mae, Nelnet, Great Lakes, AES/PHEAA) will - between January 17, 2012 and June 30, 2012 - contact each borrower that is deemed eligible for the loan, based on the Department's analysis. Each borrower will then be directed to a new online application for this program, where he or she must use their FSA PIN to access the application.

Q#30: Will the Department of Education pre-populate the Loan Verification Certificate (LVC) with only the loans that are eligible AND that the borrower has selected for “special consolidation”?

A#30: Yes. The Department of Education will pre-populate the LVC using the borrower’s information from NSLDS. Those are the only loans that the holder will need to certify, even if the holder has other potentially eligible loans that are not listed on the LVC.

Q#31: Will the Department or the designated federal loan servicers provide borrowers who use this initiative a review and confirmation process similar to the current 15-day review period prior to disbursement of the Special Direct Consolidation Loan (e.g. confirm loans to be included, interest rate, incentives, etc.) – allowing them time to review and opt in or out of this process after the application is submitted?

A#31: No. As part of the electronic application process, the borrower will be required to actively confirm their intention to consolidate each loan selected before the application is submitted. The borrower has the ability to cancel the Special Direct Consolidation Loan up until the time the federal loan servicer submits the funding request. Upon submission of the application, the borrower will receive instructions on how to cancel the application before the Department pays off the loans selected for consolidation. There will be no summary statement and no 15-day review period before the Special Direct Consolidation Loan is made.

Q#32: Will the borrower be able to consolidate additional eligible loans under the Special Direct Consolidation Loan initiative after the initial Special Direct Consolidation Loan(s) has been made?

A#32: Yes. Just as in the traditional Direct Consolidation Loan program, the borrower may add additional eligible loans within the 180-day period after the initial Special Direct Consolidation Loan has been made. The Add-On loans will also be given the same terms and conditions applicable to the Special Direct Consolidation Loan, including the interest rate reduction.

Q#33: Will a borrower who is currently processing a traditional Consolidation loan be able to cancel that process to take advantage of the Special Direct Consolidation Loan initiative?

A#33: Yes, in some instances. If the borrower has not yet received the loan statement, or has received the loan statement but the applicable 15-day period has not yet expired, he or she may request cancellation of the traditional Consolidation loan. However, if the borrower has received the loan statement and the 15-day period has expired, the borrower cannot cancel the traditional Consolidation loan.

Lender Requirements

Q#34: How will the Department collect the information necessary to process a loan(s) under the Special Direct Consolidation Loan initiative?

A#34: The Department has revised the Lender Verification Certificate (LVC) to accommodate the information collection process for this program. (<http://www.ifap.ed.gov/dpcletters/FP1201.html>)

Q#35: How much time will FFEL servicers have to complete the new LVCs?

A#35: FFEL lenders are required to complete and return the LVCs to the appropriate federal loan servicers within 10 business days of receipt.