



NASFAA 2004

NATIONAL CONFERENCE • MINNEAPOLIS 7.18.04 - 7.21.04

Helping Students Make it After All!





Repayment Options for Direct Loans



Presenters

- Denise Leifeste,
Director, Direct Loan Consolidation
Group, U.S. Department of Education

- Roberta Johnson,
Interim Director of Student Financial
Aid, Iowa State University



Objectives

- Identify and explain unique features of Direct Consolidation Loan
- Explain how a student can apply for a Direct Consolidation Loan
- Outline potential legislation that may affect Direct Consolidation Loans



Borrower Eligibility Factors for Direct Consolidation

- Has an outstanding balance on a Direct loan
- Has an outstanding balance on a FFEL loan and is unable to obtain a FFEL consolidation loan with acceptable income sensitive repayment terms and is eligible for the income contingent repayment plan
- Has an outstanding balance on a FFEL loan and asserts that he/she was unable to obtain a FFEL consolidation loan
- In the case of a Direct Plus Consolidation, may not have an adverse credit history



Loans Eligible for Consolidation

- Loans in-school in grace or in repayment
- Health Professions Student Loans, including Loans for Disadvantaged Students
- Federal Stafford Loans (subsidized and unsubsidized)
- Federal Direct Loans
- Federal Perkins Loans
 - because of its low interest rate and extensive cancellation policies, it is often advisable not to include any Perkins Loans in a Federal Consolidation Program
- Nursing Student Loans
- Federal Insured Student Loans (FISL)
- Auxiliary Loans to Assist Students
- Federal Supplemental Loans for Students (SLS)
- National Direct Student Loans (NDSL)
- Health Education Assistance Loans (HEAL)
- Federal Parent Loans for Undergraduate Students (PLUS)
- Direct Consolidation Loans
- Federal Consolidation Loans



Direct Consolidation Features

- Borrowers may consolidate while **in-school**, in-grace or in repayment
- Perkins Loans are consolidated as subsidized loans so if the borrower returns to school interest does not accrue to the borrower
- HEAL Loans are consolidated with a fixed rate, rather than variable
- No minimum amount required to consolidate
- Reconsolidation
 - a borrower can reconsolidate an existing consolidation loan (however there is no advantage if the underlying consolidation loan has a fixed rate)



Deferment Eligibility

- Enrolled at least half-time at an eligible institution
- Enrolled full time in a graduate fellowship program approved by ED
- Enrolled full time in a rehabilitation training program approved by ED
- Unemployment (three years)
- Hardship
- Special provisions for borrowers with outstanding FFELs made before July 1, 1993
- Eligible internship or residency (two years)
- More!!!



Repayment Options

- Standard
 - Ten years
- Extended
 - 12 to 30 years
 - \$50 minimum payment
- Graduated
 - 12 to 30 years
 - Payment increases every two years
- Income Contingent@
 - Amount and term based on income as verified with the IRS or acceptable alternative documentation. If loan balance remains unpaid after 25 years, balance is forgiven.

@Except for Forced ICR, borrower may change plans at any time.
Any balance that is forgiven becomes taxable income.



Spousal Consolidation

- **Deferment** – In order to qualify for a deferment both borrowers must individually and simultaneously qualify for the same type of deferment.
- **Disability** – When spouses combine their debt in a spousal consolidation loan and if one spouse becomes totally and permanently disabled, the portion of the loan attributable to that borrower can be discharged. However, both spouses remain jointly and severally liable for the remaining consolidation loan balance.
- **Death** – With a spousal consolidation, the portion of the loan attributable to the deceased spouse can be discharged. However, the surviving spouse remains liable for the remaining consolidation loan balance.
- **Divorce** – In the event that the spouses divorce, each spouse is still mutually responsible for repayment of the spousal consolidation loan.



Interest Rates on a Consolidation Loan

The interest rate is determined by taking a weighted average of the interest rates on the loans being consolidated, rounded up to the nearest one-eighth of one percent, capped at 8.25%.



Consolidation in-school/in-grace

Example: In-School/ In-Grace Consolidation Interest Savings

<u>Loan Term</u>	<u>SAVINGS</u>
10 years	\$600
12 years	\$720
15 years	\$900
25 years	\$1,500

Savings based on 4 Direct/FFEL with a combined balance of \$20,000 using the weighted average calculation at the lower in-school rate and fixed for the life of the loan.



July 1st, 2004 Interest Rates

Example of New Rate –

Borrower consolidates \$10,000 variable rate at 3.37%

- Standard Plan –
120 Payments \$98.30 Per Month \$11,796.17 Total Payment
- Extended –
180 Payments \$70.88 Initial \$12,757.68 Total Payment
- Graduated –
180 Payments \$49.15 Initial \$13,224.79 Total Payment

Note – Longer payment periods result in more interest



Single Lender Rule and Direct Loan Consolidation

- Has an outstanding balance on a FFEL loan and is unable to obtain a FFEL consolidation loan with **acceptable** income sensitive repayment terms and is eligible for the income contingent repayment plan
- Has an outstanding balance on a FFEL loan and asserts that he/she was unable to obtain a FFEL consolidation loan



Single Lender Rule

- It is not the borrower's responsibility to demonstrate he or she has multiple lenders
- Lenders must respond to request for loan information within 10 days of receipt of request
- Regulation allows for lender to provide written explanation for not complying with a request for loan information
- Provision meant to address computer system errors or when loan holder does not have information
- If loan holder asserts the single lender rule, loan holder **MUST** provide information supporting the claim

(Financial Partner's Letter 04-02, February 17, 04)



Clarification on the Two Step Process

- Some lenders consolidating a Perkins, without an FFEL or Direct Loan to then consolidate an FFEL.
- Clarification is lender must hold an FFEL to consolidate a Perkins with that lender.
- Lender cannot consolidation Perkins alone.



School's Responsibilities

- Financial Counseling
- Entrance and Exit Counseling
- Perkins Schools complete Verification Certifications



Schools and Financial Counseling

- Along with required counseling on Title IV Aid, offer counseling on private student loans
- Offer Debt Management Training
- Explain different savings plans
- Discuss salary trends for the various professions the students will be entering



Entrance and Exit Counseling

- Explain the seriousness of the obligation to repay the student loan
- Explain the importance of staying in contact with the holder of the loan
- Review forbearance and deferment options
- Provide the borrower with sample monthly repayment amounts and review the repayment plans
- Review the terms: “default”, “adverse credit reports”, “administrative wage garnishment”, and “litigation”
- Review payment options, such as Rehabilitation and Loan Consolidation
- Explain the importance of staying in contact with the Direct Loan Servicing Center



Perkins Loan Schools

- Complete verification certificates
- Timely payoff of borrower loans
- Prompt over and underpayment adjustments
- Advise not to include if eligible for forgiveness



Perkins Loan Schools

Why should I Participate in EFT ?

- 1996 Debt Reduction Act Requires it
- Eliminates Manual Check Processing
- Facilitates posting
- Reduces Over/Under Payment Adjustments
- Selective Access improves audit controls
- Funds received faster via ACH or Fed Wire

Why should I Participate in EVC?

- Eliminates Manual Completion of LVCs
- Edits Prevent Entry of Erroneous information
- Eliminates Postage Costs
- Ensures Regulatory Compliance
- Choice of On-line or Batch Process



EFT/EVC Contacts

EFT

Greg McCoy, LCC Acct. Mgr.

(334) 206-6848

Greg.McCoy@eds.com

EVC

Scott Ahrendt, LCC Ops. Mgr.

(334) 206-7782

Scott.Ahrendt@eds.com

Bob Kling, Lender Liaison

Direct Loan Consolidation Group

U.S. Department of Education

202) 377-3292 Robert.Kling@ed.gov



Application Process

- If all loans are held by Direct Loan Servicing, then loan consolidation can be done via phone.
- On-line at www.loanconsolidation.ed.gov
- Paper application which can be downloaded from above address or sent based on phone call.



Proposed Legislation

Change interest rate from fixed to variable for all consolidation loans.

- Argument #1: Current interest rates are artificially low. The current program will cost a lot of money to sustain in the future.
- Argument #2: Students have shouldered increasingly larger debt loads to cover educational costs. Why remove a benefit that makes education more affordable?



Comments, Feedback and Contact Information

Denise Leifeste

Phone: (202) 377-3293

Fax: (202) 275-0543

Email: denise.leifeste@ed.gov

Roberta Johnson

Phone: (515) 294-0109

Fax: (515) 294-0851

Email: rljohns@iastate.edu