



# ***Session 16***

## **CONSOLIDATION – What is it and how does it work?**

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# Today's Agenda

- I. Nuts and Bolts of Loan Consolidation
- II. Pros and Cons of Loan Consolidation
- III. The Financial Aid Officer's Role
- IV. Questions and Answers

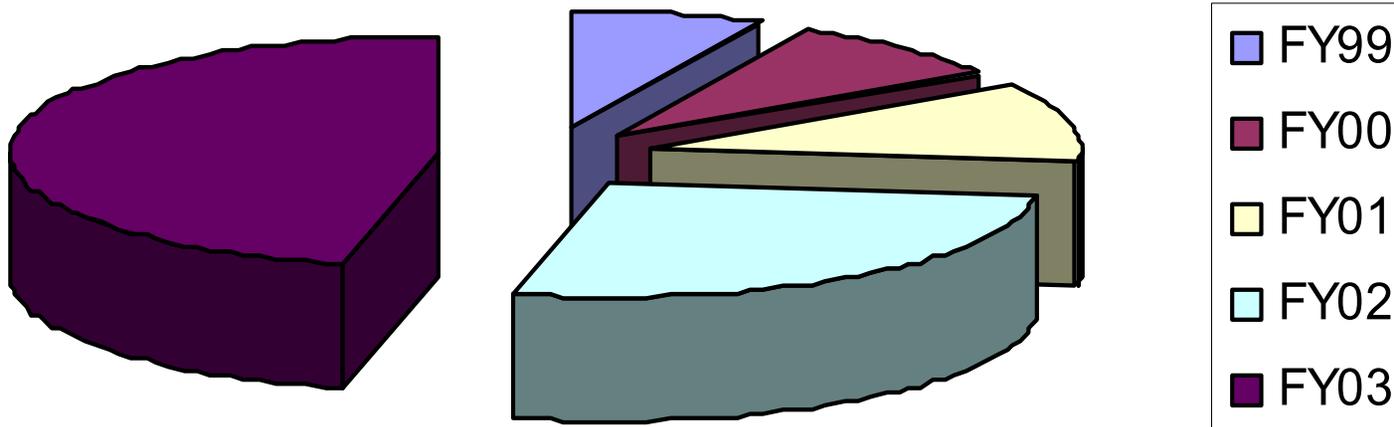


# Snapshot of the History of Loan Consolidation

- FFEL Consolidation Program created in 1986
- Federal Direct Loan Consolidation Program created in 1992
- Student Loan Interest Rates at Historic Lows

# Direct Loan and FFEL Consolidation Statistics

## FFELP Consolidations





# Eligible Loans for Consolidation

- FFEL and Direct Loan Program Loans
- Federal Insured Student Loans (FISL)
- Perkins Loans (NDSL)
- Federal Supplemental Loans for Students (SLS)
- 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)



# Loan Eligibility Factors

- Loans being consolidated are in grace period, repayment or default status and, in addition for Direct Loan Consolidation, the borrower is in an in-school period and consolidating both FFEL and Direct loans or is consolidating FFEL loans without Direct loans but is at a school participating in the Direct Loan Program
- Loans are not subject to a judgment and, in addition for FFEL Consolidation, loans are not subject to an order of wage garnishment



# Borrower Eligibility Factors for Either Program

- Certifies no other app for a consolidation loan is pending
- Agrees to notify consolidator of change of address
- If spousal consolidation, each spouse agrees to be held jointly and severally liable for the repayment of the total amount of the consolidation loan





# Borrower Eligibility Factors Only for Direct Program

- 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





# Borrower Eligibility Factors Only for FFEL Program

- Certifies that the lender holds at least one outstanding loan that is being consolidated:  
OR
- Applies to any eligible consolidation lender if:  
he/she has multiple holders of FFEL loans;  
the holder of the loan does not make consolidation loans; he/she has been denied a Consolidation loan with an income-sensitive repayment plan



# Single Lender Rule

## Why do I keep hearing about it?

- It is important when the student is choosing a loan consolidator
- Students are being bombarded with mail and phone solicitations to consolidate their student loans





# Single Lender Rule

## Why do I keep hearing about it?

- 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)



# How is the interest rate determined?

- 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%.
- For FFEL, if a HEAL loan is included, the interest rate for the HEAL portion will be a variable rate determined by the average of the bond equivalent rates of 91-day Treasury bills auctioned for the quarter ending June 30, plus 3%.
- For Direct Loans, if a HEAL loan is included, 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%.

*(Important note: In Direct Loans Perkins Loans are considered subsidized loans. In FFELP, Perkins Loans are considered unsubsidized loans)*

# Repayment Options

## FFEL Consolidation

- Standard
  - Equal monthly payments
- Extended
  - FFELP Loan balance over \$30,000
  - May repay over a 25 yr period
- Graduated
  - Smaller payments in beginning
  - Increase in stages
- Income Sensitive
  - Based on expected monthly gross income
  - Adjusted Annually



\*\*\*Repayment periods range from 10 – 30 yrs depending on amount of student loan debt\*\*\*

# Direct Consolidation Loans Repayment Options

- Standard
  - 10 yr. repayment period
  - \$50 min. monthly fixed payment
- Extended
  - 12-30 yr repayment period
  - \$50 min. monthly fixed payment
- Graduated
  - 12-30 yr. repayment period
  - Monthly payments increase every 2 yrs
- Income-Contingent
  - Amount and term based on debt and income





# Fixed weighted average interest rate advantage – FFEL Loans

\$17,125 @ 2.875%

- 10 yrs \$164.35
- 15 yrs 117.21

Borrower can pay  
\$47/month less

\$55,500 @ 2.875%

- 10 yrs \$532.72
- 15 yrs 379.95
- 20 yrs 304.34
- 25 yrs 259.59

Borrower can pay up  
to \$273/month less



# Fixed weighted average interest rate – Direct Loans

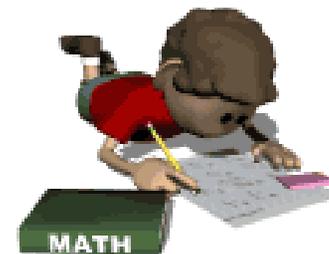
| Repayment Plan | Terms (months) | Monthly Payment (Variable Rate)<br>Assuming 8% avg. rate                   | Monthly payment (Fixed rate)<br>4% fixed weighted avg. | Savings Over Term of Loan |
|----------------|----------------|--|--|---------------------------|
| Standard       | 120            | \$243  | \$202  | \$4,820                   |
| Extended       | 240            | 167  | 121  | 11,062                    |
| Graduated      | 240            | 133<br>7% increase (up to \$240 month) every 2 yrs. based on \$20,000 debt | 101  | 13,683                    |
| Income Based   | 243/192        | 115<br>adjusted annually based on income                                   | 115  | 15,595                    |

Example based on 2 Direct Loans and 2 FFEL Loans with a combined total of \$20,000

# 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.



# How Loans Are Consolidated

Borrower Submits Electronic or Paper Application/P-note to the Consolidation Lender or The William D. Ford Direct Consolidation Loan Department



# How Loans Are Consolidated

- Consolidation Lender sends consumer disclosures/p-note to borrower
- Borrower returns signed P-note.
- Loans included in the consolidation are paid in full

# How Loans Are Consolidated

Consolidation Lender begins to service the loan and the borrower goes into repayment status



Repayment Begins



# After Consolidation

- If request is made within 180 days, may add an eligible loan to outstanding consolidation loan
- To receive a subsequent consolidation loan:  
Obtain a new eligible loan; or consolidate an existing consolidation loan with at least one other eligible loan; or under the Direct Loan Consolidation Program the borrower can reconsolidate a consolidation loan



# Consolidation Pros

- Fixed interest rate
- Single monthly payment
- Lower monthly payments
- Manage monthly budget
- Remove loans from default status



# Consolidation Cons

- Fixed interest rate
- More interest paid over the term of the loan
- May have fewer deferment options
- Fewer cancellation and forgiveness options
- Possible loss of payment incentives/discounts

# What is your role?

- Financial Counseling
- Entrance and Exit Counseling
- Dismissing Myths about Loan Consolidation
- Perkins Schools complete the Verification Certifications





# 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



# Dismissing Myths

- I can consolidate my loans with the lender of my choice
- I have to consolidate my loans today
- If I reconsolidate my loan, I will get a lower interest rate
- If I receive an offer to consolidate in the mail or by phone, it must mean I can



# Your Role in Consolidation

## Perkins Loan Schools

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





# Important Web sites, E-Mail Addresses and Phone Numbers

- **Mapping Your Future**
  - <http://www.mapping-your-future.org/>
  
- **Association of American Medical Colleges Loan Consolidation Primer**
  - <http://www.aamc.org/students/medloans/loanconsolidation/primer.htm>
  
- **National Do Not Call Registry**
  - <https://www.donotcall.gov/default.aspx>
  
- **Direct Consolidation Loan Program**
  - <http://loanconsolidation.ed.gov/>
  - [loan\\_consolidation@mail.ed.gov](mailto:loan_consolidation@mail.ed.gov)
  - 1-800-557-7392
  
- **FFEL Consolidation Loan Program**
  - Get information from the Lender, Servicer, and/or Guaranty Agency

# Loan Consolidation

A tool to help borrowers manage their student loan debt successfully

Questions?



# Loan Consolidation

A tool to help borrowers manage their student loan debt successfully

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