

National Association of Student  
Financial Aid Administrators Presents...

# **Title IV Consolidation Loans**

## **Update after July 1, 2005**

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NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

# Agenda

- July 1, 2005 Rate Change
- Title IV Consolidation Loan Review
- Dear Colleague GEN-05-08, FP 05-05
- Future State
- Questions



# July 1, 2005 Rate Change

## What's it about?

- Student loan (DL and FFEL Stafford loan) variable rates for in-school, in grace, in deferment status increased **1.93%** over '04 rates (now 4.70%, were 2.77%)
- Student loan variable rates for repayment and forbearance status increased **1.93%** over '04 rates (now 5.30%, were 3.37%)
- Huge response to get a fixed consolidation loan interest rate based on underlying loans that were at the pre-July 1 rates. (More details to follow)



# Title IV Consolidation Loan Review

Title IV consolidation loan -

- New loan comprising (and paying off) existing student loan obligations
- Established in 1986 for FFEL, 1992 for DL
- Offered by DL and FFEL eligible lender
- Total of existing principal amount of obligations in new form
- Prior obligations are paid in full



# Title IV Consolidation Loan Review

## Loans eligible for consolidation:

- DL and FFEL Stafford loans
- Perkins loans
- Existing Title IV consolidation loans
- DL and FFEL PLUS loans
- Health Education Assistance Loans (HEAL)
- Federal Insured Student Loan (FISL)
- Health Professions Student Loans (HPSL)
- Loans for Disadvantaged Students (LDS)
- Nursing Student Loans
- Fed. Supp. Loans for Students (SLS)
- Loans to Assist Students (ALAS)



# Title IV Consolidation Loan Review

## Advantage for Borrower:

- Fixed interest rate based on current low variable interest rates on underlying loans
- Longer repayment period – lower monthly payment
- If loans scattered, obtain single holder/servicer; single payment
- Defaulted loan(s) can be consolidated out of default under certain circumstances.



# Title IV Consolidation Loan Review

## Disadvantages for borrower:

- May lose existing incentives offered by current holder
- May lose some deferment and cancellation rights on Perkins loans
- If consolidating defaulted loans, collection charges are capitalized.
- Special case of spousal consolidation
  - Joint and several liability for combined obligation
  - Deferment only if both are eligible



# Title IV Consolidation Loan Review

## FFEL and DL differences:

- FFEL single holder rule  
Borrower works with single holder unless unable to get a consolidation loan, or consolidation loan with income-sensitive repayment from that holder
- In-school consolidation – DL only
- BUT FFEL borrower who is in repayment (although enrolled in school) can consolidate FFEL loans. (More details to follow)
- FFEL opportunity for reconsolidation limited



# Title IV Consolidation Loan Review

## Consolidation loan repayment

- Under \$7,500            10 years maximum
- \$7,500-\$10,000            12 years
- \$10-20,000            15 years
- \$20-40,000            20 years
- \$40-60,000            25 years
- = or greater than \$60,000            30 years



# Title IV Consolidation Loan Review

- How is the consolidation interest rate calculated?

It is the **weighted** average of the interest rates on the loans being consolidated, rounded up to the nearest  $\frac{1}{8}$  of 1%, capped at 8.25%



# Title IV Consolidation Loan Review

First step, for one basic approach:

- Determine interest rate for each loan included in consolidation
  - Old vs. new loans
  - Holder disclosure (LVC)
  - Annual interest rate tables

(<http://IFAP.ed.gov/IFAPWebApp/currentEAnnouncementsPag.jsp>)



# Title IV Consolidation Loan Review

**Sample loans to be consolidated – on 7/1/05**

Loans	Principal outstanding	Status In repayment or forbearance	Status In-school, in grace or defer.
Stafford	\$2000	5.30%	4.70%
Perkins	\$4000	5.00%	5.00%
“Old” Stafford	\$4000	6.10%	5.50%
PLUS	\$3000	6.10%	6.10%

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# Title IV Consolidation Loan Review

Second:

- Multiply the outstanding principal balance of each loan by its interest rate for the “per loan weight factor”



# Title IV Consolidation Loan Review

<u>Sample Loans</u> For 7/1/05 Consolidation	<b>Outstanding Principal Balance</b>	<b>Status</b> <u>In repayment or forbearance</u>	<b>Per loan weight factor</b>
Stafford	\$2000	5.30%	\$10,600
Perkins	\$4000	5.00%	\$20,000
“Old” Stafford	\$4000	6.10%	\$24,400
PLUS	\$3000	6.10%	\$18,300

# Title IV Consolidation Loan Review

Third:

- Add the per loan weight factors together

\$10,600

\$20,000

\$24,400

\$18,300

**\$73,300**



# Title IV Consolidation Loan Review

Fourth:

- Add the underlying loan amounts

\$2000

\$4000

\$4000

\$3000

**\$13,000**



# Title IV Consolidation Loan Review

Fifth:

- Divide the “total per loan weight factor” by the total loan amount

$$73,300/13,000 = 5.6384615\dots$$

**Consolidation loan rate fixed at 5.75**

(use: .125, .25, .375, .5, .625, .75, .875, 1.0)



# Title IV Consolidation Loan Review

- Weighted average for same loans, consolidated in grace, deferment, or in-school status would be **5.375**

Loans	Principal outstanding	In repayment or forbearance	In-school, in grace, in deferment
Stafford	\$2,000	5.30%	4.70%
Perkins	\$4,000	5.00%	5.00%
“Old” Stafford	\$4,000	6.10%	5.50%
PLUS	\$3,000	6.10%	6.10%

# Title IV Consolidation Loan Review

<b>IF 6/30/05</b>	<b>Outstanding Principal Balance</b>	<b>In repayment or forbearance</b>	<b>In-school, in grace, in deferment</b>
Stafford	\$2000	3.37	2.77
Perkins	\$4000	5.00%	5.00%
“Old” Stafford	\$4000	4.17	3.57
PLUS	\$3000	4.17%	4.17%
<b>Weighted Aver 6/30</b>	-----	<b>4.375</b>	<b>4.125</b>
<b>Weighted Aver 7/1</b>	-----	<b>5.75</b>	<b>5.375</b>

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# Title IV Consolidation Loan Review

## Reconsolidation

FFEL borrower – entitled to one consolidation, except

- Within 180 days may add eligible loans received prior to date of consolidation
- May consolidate any eligible loan received after date of consolidation
- Reconsolidate an existing consolidation loan only if borrower has at least one other eligible loan made before or after original consolidation



# Title IV Consolidation Loan Review

## Reconsolidation

DL borrower

- Has no limitation on reconsolidation or additional consolidation of eligible loans
- May add eligible loans to Direct Consolidation loan within 180 days



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# Dear Colleague Letter GEN-05-08, FP 05-05

May 16, 2005 Dear Colleague letter –

- In response to concerns about the logistics of working through the volume of consolidation loan applications anticipated at end of June when rates change, and
- To clarify the early repayment option for FFEL borrowers to become eligible for consolidation while still enrolled in school



# Dear Colleague Letter GEN-05-08, FP 05-05

- FFEL lenders authorized to provide new consolidation loan borrowers the lowest statutory weighted average interest rate by using the lower of the weighted average of the interest rates on loans being consolidated
  - As of July 1, 2005, OR
  - As of the date the lender received the application

[SAME PROCESS FOR DL]



# Dear Colleague Letter GEN-05-08, FP 05-05

- Eligible Borrower for FFEL consolidation loan....on the loans being consolidated, is, at the time of the application for a consolidation loan (1) in grace period preceding repayment; **(2) in repayment status**; (3) in default status and agreed to satisfactory repayment arrangements or agreed to repay the consolidation loan under the income sensitive repayment plan.

34 CFR 682.201(c)



# Dear Colleague Letter GEN-05-08, FP 05-05

- FFEL borrowers cannot consolidate their loans before their grace period, however borrower has the right to ask his/her loan holder to accelerate loan(s) into repayment status (which normally would follow the grace period).
- If lender agrees, borrower's loan(s) is put into repayment and can be consolidated but borrower waives the benefit of a grace period thereafter.



# Dear Colleague Letter GEN-05-08, FP 05-05

- If borrower's loans(s) are put into early repayment from loan holder, he/she can have "in school" deferment if otherwise eligible.
- Nothing in Dear Colleague changed a Direct Loan borrower's situation: he/she has the right to consolidate during in-school status and retains grace period.



# Future State

- Will it ever be as crazy as this year?
- Will variable interest rates for 7/1/06 increase as much as this year?
- Will Congress act to change fixed rate to variable?



# QUESTIONS?



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# Contact Information

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