

## **ATTACHMENT D**

### **UPDATE ON CONSOLIDATION LOAN ISSUES DCL GEN-06-20 AND FP-06-16**

#### **DIRECT CONSOLIDATION LOAN APPLICATIONS**

Dear Colleague Letter FP-06-03, dated March 17, 2006, included information related to the HERA changes that limited the conditions under which a borrower may include an existing Consolidation Loan in a new Consolidation Loan. In that letter, we specifically addressed whether borrowers could consolidate an existing FFEL Consolidation Loan into the Direct Loan Program and then consolidate the new Direct Consolidation Loan into a FFEL Consolidation Loan (the “two-step” process). To provide sufficient time for all of the activities that must be completed in the “two-step” process to be completed by June 30, 2006, the letter stated that we would –

. . . continue to process LVCs received from FFEL lenders through June 30, 2006, if the Direct Consolidation Loan that is the subject of the LVC resulted from a Direct Consolidation Loan application received by the Department on or before March 31, 2006.

We considered the March 31 deadline to have been met if the Direct Loan Program had received a substantially complete Direct Consolidation Loan application by that date. After receiving the application, we needed to request and receive a completed LVC from the FFEL lender before the Direct Consolidation Loan could be made. As of mid-August, there were a number of Direct Consolidation Loan applications that had been submitted for consolidation of an existing FFEL Consolidation Loan by March 31, 2006, but had not been funded either because the borrower did not respond to our requests for additional information or because we did not receive the LVC that we requested from the holder of the FFEL Consolidation Loan.

The Direct Loan Program has stopped funding Consolidation Loan applications when the only loan to be consolidated was a single FFEL Consolidation Loan (unless the loan was delinquent and had been submitted for default aversion assistance, was in default or the borrower had filed a bankruptcy discharge petition on the loan), regardless of the date of receipt of the application. Since we will not make a Direct Consolidation Loan based on such applications, we returned or will return to the FFEL lender any LVCs received for those applicants.

We understand that some FFEL lenders, after receiving an LVC for the new Direct Consolidation Loan as the first step in the two-step process, may have completed the second step after June 30, 2006. The Department will not deny reinsurance or other federal benefits on FFEL Consolidation Loans made under these circumstances on or after July 1, 2006 and prior to the date of this letter. Effective with the date of this letter, a FFEL lender may not make a Consolidation Loan to a borrower with only a FFEL or Direct Consolidation Loan even if the Consolidation Loan application was received by the lender prior to July 1, 2006.