

Special Direct Consolidation Loan Program Q&A

Introduction

The U.S. Department of Education (the Department) will offer a Special Direct Consolidation Loan Program to eligible borrowers, beginning in January 2012. This is a short-term consolidation opportunity, ending June 30, 2012. The four federal loan servicers (FedLoan Servicing – PHEAA, Great Lakes Educational Loan Services, Inc., Nelnet, and Sallie Mae) will contact borrowers that are determined eligible by the Department, and provide them with instructions for the new online application process. These borrower contacts will begin 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 Program. Although the federally-held loans will be used to determine the borrower's eligibility for the Special Direct Consolidation Loan, only eligible commercially-held FFEL loans selected by the borrower will be included in the consolidation loan made under this program. The Special Direct Consolidation Loan Program 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, and December 28, 2011) 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 that would not qualify for the Special Direct Consolidation Loan Program and one commercially-held FFEL loan that is not in default (270 or more days delinquent) that would qualify for the program. 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#12)

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 enters the Special Direct Consolidation Loan Program 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 to be determined by the Department.

In-School Status

Q#5: 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 Program?

A#5: No. A borrower may not consolidate his or her commercially-held FFEL Stafford loans under the Special Direct Consolidation Loan Program 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#6: If the borrower has a federally-held Stafford loan(s) or a commercially-held FFEL Stafford loans(s) that is still in an in-school status, can the loan(s) be consolidated in the Special Direct Consolidation Loan Program?

A#6: 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 in-school status, the borrower's commercially-held FFEL Stafford loan(s) would qualify for the Special Direct Consolidation Loan Program. However, a commercially-held FFEL Stafford loan(s) in an in-school status does not qualify for this program. (Refer to A#5 above.)

Q#7: 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 Program?

A#7: Yes. (Refer to A#5 and A#6 above.)

Grace Period

Q#8: Can a borrower consolidate commercially-held FFEL loan(s) under the Special Direct Consolidation Loan Program during the grace period?

A#8: Yes. (Refer to A#5 above.)

Q#9: Will a borrower who consolidates commercially-held FFEL loan(s) under the Special Direct Consolidation Loan Program during the grace period retain the remainder of the grace period?

A#9: No. The remainder of the grace period will be forfeited at the point the loan(s) is consolidated.

Non-Default Claims

Q#10: 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 Program?

A#10: At the time the claim is filed by a lender/servicer.

Bankruptcy

Q#11: Can a loan on which the borrower is seeking bankruptcy discharge be consolidated under this program?

A#11: No. This includes bankruptcies where a claim will not be filed.

Default

Q#12: Are defaulted loans eligible for the Special Direct Consolidation Loan Program?

A#12: No. A loan that is in default (270 or more days delinquent) is ineligible for this program. 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 Program. 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#13: Are loans in the Conduit eligible for the Special Direct Consolidation Loan Program?

A#13: Yes.

Deferment

Q#14: 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#14: Yes.

Repayment

Q#15: Will the repayment plan that is in effect at the time the commercially-held FFEL loan is consolidated remain in effect once the loan enters the Special Direct Consolidation Loan Program?

A#15: It depends. Borrowers will be required to choose a repayment plan when they apply for the Special Direct Consolidation Loan. According to the information published, the repayment terms of the Special Direct Consolidation loan will not be reset.

Q#16: Will the borrower be allowed to choose another repayment plan for the Special Direct Consolidation Loan, such as IBR, graduated, or extended?

A#16: 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 Special Direct Consolidation Loan includes parent PLUS Loans, or Consolidation Loans that repaid parent PLUS loans, that portion of the Consolidation Loan may not be repaid under the IBR Plan. However, that portion of the loan can be repaid under the ICR Plan.

Q#17: If the borrower selects multiple commercially-held FFEL loans to include in the Special Direct Consolidation Loan Program, will these be combined into one Special Direct Consolidation Loan?

A#17: Each individual commercially-held FFEL loan will become a portion of the 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#18: Once the borrower consolidates his or her commercially-held FFEL loan(s) under the Special Direct Consolidation Loan Program, will the loan(s) then be eligible for consolidation into a "traditional" Direct Consolidation Loan for a longer term?

A#18: Yes.

Prepayments

Q#19: 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#19: Per the Department of Education, the repayment of a Special Direct Consolidation Loan will begin immediately upon consolidation.

IBR

Q#20: 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#20: Yes. IBR payments made prior to consolidating under this program will continue to count toward the 25 years required for loan forgiveness.

Interest Rate

Q#21: Which loans are eligible for the 25 basis-point interest rate reduction?

A#21: Commercially-held FFEL loans included in the Special Direct Consolidation Loan qualify for the 25 basis-point incentive. This 25 basis-point reduction will be applied to the loan's *existing interest rate* at the time the loan is consolidated under this program.

Q#22: How will the fixed interest rate be determined for a variable rate commercially-held FFEL loan(s) upon entering the Special Direct Consolidation Loan Program?

A#22: The interest rate will be 'fixed' at the variable rate as of the date the loan is consolidated under the Special Direct Consolidation Loan Program, less 25 basis points. The rate will not be rounded up and no weighted average rate will be calculated.

Q#23: Will each loan that enters the Special Direct Consolidation Loan Program have a weighted average rate or will each loan that is consolidated under this program retain its own individual rate?

A#23: Each individual loan will retain its own fixed rate, as calculated above.

Q#24: Will a commercially-held FFEL subsidized Stafford loan (or subsidized portion of a FFEL Consolidation loan) that is consolidated under the Special Direct Consolidation Program retain its interest subsidy?

A#24: Yes.

Application Process

Q#25: How will a borrower apply for the Special Direct Consolidation Program?

A#25: One of the 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 program, 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#26: 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#26: 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#27: Will the Department or the federal loan servicers provide borrowers who use this program 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#27: 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. 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#28: Will the borrower be able to add additional eligible loans to the Special Direct Consolidation Loan after the Special Direct Consolidation Loan has been made?

A#28: Yes. Just as in the traditional Direct Consolidation Loan program, the borrower may add additional eligible loans within the 180-day period after the Special Direct Consolidation Loan has been made.

Q#29: 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 Program?

A#29: 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#30: How will the Department collect the information necessary to process a loan(s) under the Special Direct Consolidation Loan Program?

A#30: The Department has revised the Lender Verification Certificate (LVC) to accommodate the information collection process for this program.

Q#31: How much lead time will FFEL servicers have to implement a process for completing the new LVCs?

A#31: A new LVC designed for this program has been approved and will be shared with the FFEL lenders and servicers in a Dear Colleague Letter. Note that FFEL lenders will still be required to complete and return the LVCs to the appropriate federal loan servicers within 10 days of receipt.