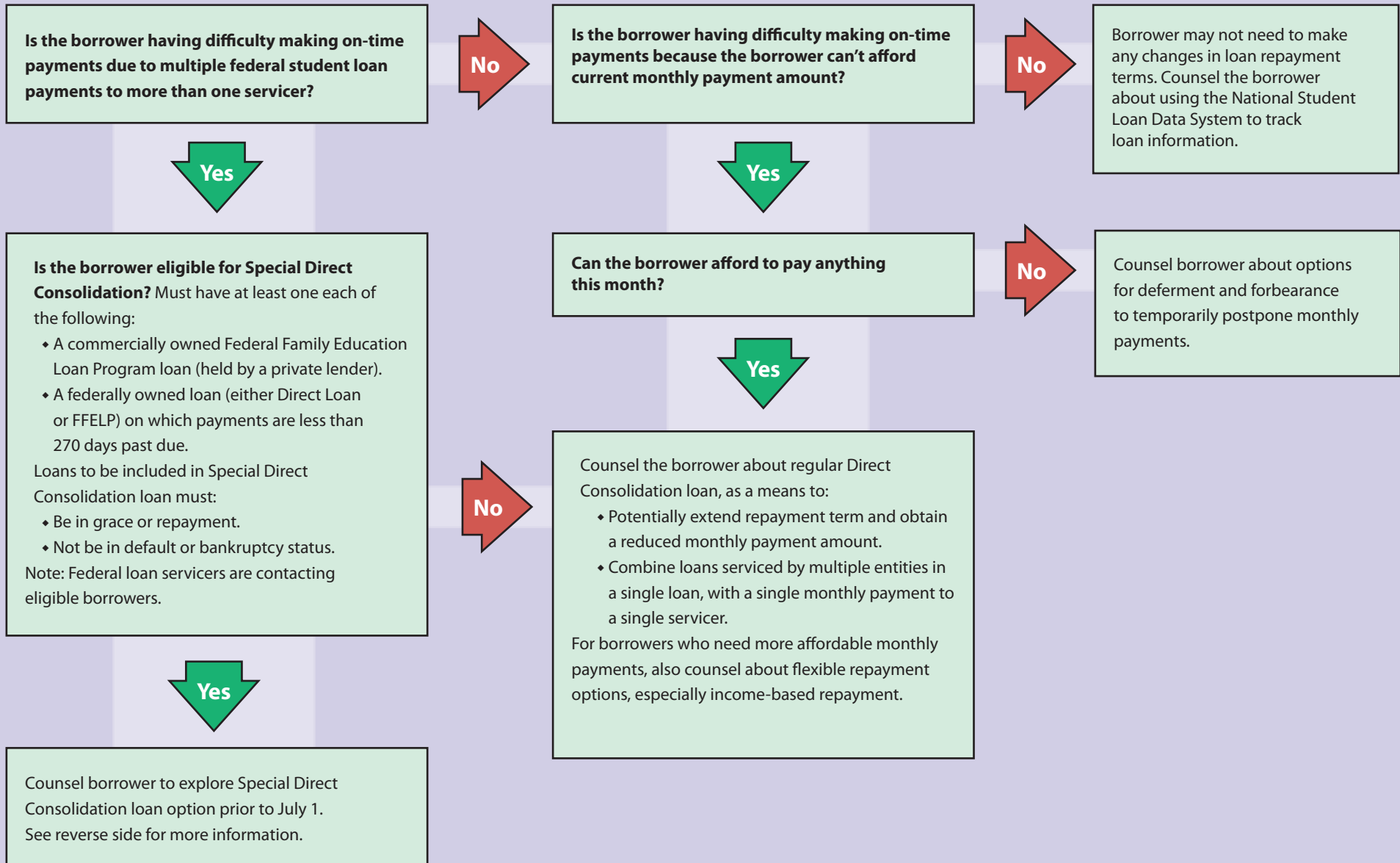


Counseling Borrowers About Special Direct Consolidation Loans and Other Options



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On Oct. 25, 2011, President Obama announced a Special Direct Consolidation Loan Program to help certain student loan borrowers manage their federal student loan payments. The goal of the program is to ease the management of payments for borrowers with both privately held Federal Family Education Loan Program and federally owned FFELP or Direct Loans, whose loans are managed by multiple servicers, requiring the borrower to make multiple monthly federal student loan payments.

Here are some highlights of the program:

Eligibility

- ◆ Borrower must have a mix of at least one each of the following:
 - A privately held (owned by a private lender or other eligible private loan holder) FFELP loan (subsidized Stafford, unsubsidized Stafford, PLUS, consolidation) that is in grace, repayment, deferment or forbearance and that is not in default or bankruptcy status.
 - A federally owned FFELP loan or Direct Loan on which payments are less than 270 days past due.

Notification

- ◆ Eligible borrowers have been identified, and federal loan servicers are notifying those borrowers of their eligibility and how to apply.

Application

- ◆ Eligible borrowers must apply by June 30, 2012.
- ◆ Borrowers must use a special application. Counsel borrowers not to use the regular Direct Consolidation loan application.

Benefits

- ◆ Special Direct Consolidation loans offer eligible borrowers the following potential benefits:
 - One monthly federal student loan payment to one loan servicer.
 - A 0.25 percentage point reduction in the interest rate on the privately held FFELP loan included in the Special Direct Consolidation Loan.
 - An additional 0.25 percentage point reduction if the borrower elects to have payments on the Special Direct Consolidation loan automatically debited from the borrower's bank account.

- These discounts are applied to the existing interest rate, including borrower benefits for automatic payment and on-time payments that the borrower was receiving on loans included in Special Direct Consolidation loan.
- No loss of credit for payments previously made under income-based repayment toward IBR loan forgiveness after 25 years of payments.
- Eligibility for Public Service Loan Forgiveness.

Key Differences Between Special Direct and Direct Consolidation Loans

- ◆ A different application is required for each.
- ◆ Special Direct Consolidation does not afford the borrower the opportunity to extend the repayment term based on the borrower's total education debt, as Direct Consolidation does.
- ◆ The interest rate on the Special Direct Consolidation loan is the same as on the underlying privately held FFELP loan, less the 0.25 percentage point reduction, and the rate is fixed. The result will be a slightly lower rate than the borrower currently is paying. Direct Consolidation loan rates are based on the weighted average of the loans being consolidated rounded up to the nearest one-eighth of 1 percent. The result likely will be a slightly higher interest rate than the borrower currently is paying.