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Publication Date: May 2006

DCL ID: FP-06-09

Subject: Lender options for determining Federal Consolidation Loan interest rates as of July 1, 2006

Summary: This letter provides options for lenders in the Federal Family Education Loan (FFEL) Program to use when determining Federal Consolidation Loan interest rates as of July 1, 2006 and shortly thereafter.

Posted on 05-30-2006

Dear Colleague:

Federal Consolidation Loans in the FFEL Program have fixed interest rates that are based on the weighted average of the interest rates of the loans being consolidated. Many of the loans that borrowers plan to consolidate over the next several weeks have variable interest rates that are expected to increase significantly on July 1. In response to a similar situation last year, the Department issued guidance to the student loan community in Dear Colleague Letter GEN-05-08 <http://ifap.ed.gov/dpccletters/GEN0508.html> to help borrowers obtain the lowest statutory weighted average interest rate, by authorizing lenders to use the lower of the weighted average of the interest rates on the loans being consolidated as of July 1 or on the date the lender received the borrower's substantially complete consolidation loan application.

We are providing the same authority to FFEL lenders again this year, and will apply the same treatment to applicants for a Direct Consolidation Loan. In exercising this authority, a lender -

1. Must apply a consistent method of determining when a substantially complete application is received.
2. Must honor a borrower's request, if possible, that his or her loan be disbursed prior to July 1st.
3. Must not hold an application received before July 1st longer than is necessary to receive and process loan verification certificates and disburse payoff amounts to the borrower's loan holders.
4. May calculate a pre-July 1 fixed interest rate for the Consolidation Loan, even if a loan verification certificate is received on or after July 1 and reflects a post-July 1 variable interest rate on the loan(s) being consolidated, provided a substantially complete application was received prior to July 1.
5. Must advise the borrower that the current holders of the variable rate loans the borrower wishes to consolidate are authorized to charge the new variable interest rate as of July 1 on those loans until

they are paid off by a Consolidation Loan made by the consolidating lender, even if the borrower's substantially complete consolidation application was received by the consolidating lender prior to July 1.

Important Note: Dear Colleague Letter [GEN-05-08](#) also included a discussion about the procedures for permitting in-school borrowers to request early conversion to repayment for the purpose of qualifying for a Consolidation Loan. A borrower's request for early repayment must be received by the holder of the underlying loan prior to July 1, 2006. An applicant whose consolidation application is received on or after July 1, 2006 must be in grace or repayment status, or in default with satisfactory repayment arrangements, on the loans the borrower requests to consolidate. See page 2 of Dear Colleague Letter GEN-06-02 <http://ifap.ed.gov/dpclatters/GEN0602.html>

If you have questions concerning the guidance provided in this letter, please contact Pam Moran at (202) 502-7732 or George Harris at (202) 502-7521.

Sincerely,

James Manning  
Acting Assistant Secretary

Attachments/Enclosures:

[FP-06-09: Lender options for determining Federal Consolidation Loan interest in PDF Format, 193KB, 2 pages](#)

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