

Special Direct Consolidation Loans

The U.S. Department of Education will offer Special Direct Consolidation Loans to eligible borrowers, beginning in January 2012. This is a short-term consolidation opportunity, ending June 30, 2012, for borrowers with:

- At least one student loan held by the Department (a Direct Loan or a Federal Family Education Loan [FFEL] owned by the Department and serviced by one of the Department's servicers); **and**
- At least one commercially-held FFEL loan (a FFEL loan that is owned by a FFEL lender and serviced either by that lender or by a servicer contracted by that lender).

Special Direct Consolidation Loans are intended to help borrowers manage their debt by ensuring all of their federal loans are serviced by the same entity, resulting in one bill and one payment (borrowers repay loans to a loan servicer). Borrowers will also receive an interest rate reduction on Special Direct Consolidation Loans as a repayment incentive.

The information below describes the eligibility requirements and benefits of taking out a Special Direct Consolidation Loan.

Who is eligible for a Special Direct Consolidation Loan?

You must have at least one loan owned by the Department of Education and at least one commercially-held FFEL loan to qualify for a Special Direct Consolidation Loan.

What federal student loans are eligible for the Special Direct Consolidation Loan program?

While you must have both a Department-owned loan and a commercially-held FFEL loan to be eligible, **ONLY** your commercially-held FFEL loans are eligible for consolidation under this initiative. These include:

- FFEL Subsidized and Unsubsidized Stafford Loans;
- FFEL PLUS Loans (both those taken out by graduate/professional students and those taken out by a parent to pay for the costs of an undergraduate student); and
- FFEL Consolidation Loans

In order to be eligible for consolidation under this initiative, these loans *must be* in grace, repayment, deferment, or forbearance.

The following loans are ineligible for this program:

- FFEL loans in default or subject to a bankruptcy proceeding;
- Perkins Loans;
- Health Education Assistance Loans (HEAL), Health Professions Student Loans (HPSL), Nursing Student Loans (NSL), Loans for Disadvantaged Students (LDS); and
- Private student loans

What are the benefits of Special Direct Consolidation Loans?

- **Interest rate reduction:** If you consolidate into a Special Direct Consolidation Loan, you will receive a 0.25% interest rate reduction from the current interest rate on your commercially-held FFEL loan(s) as of the date of consolidation. The interest rate will be fixed for the life of the loan and cannot exceed 8.25%.
- **Repayment term will not be changed:** The repayment term on your Special Direct Consolidation Loan (the length of time you have to repay the loan) will remain the same as your current repayment terms and will not be reset. As a result, you will pay less interest over the life of the loan than you would with a traditional Direct Consolidation Loan.

- **Credit for Previous Income-Based Repayment (IBR) Payments:** If you made any IBR loan payments on your commercially-held FFEL loans prior to consolidation, those payments will count toward the required repayment time for cancellation if you remain in IBR. Under IBR, any remaining loan balance is forgiven after 25 years of repayment.
- **Eligibility for loan forgiveness under the Public Service Loan Forgiveness (PSLF) Program:** By consolidating your commercially-held FFEL loans into a Special Direct Consolidation Loan, those loans become Direct Loans, and as result, are eligible for the PSLF Program if you meet the additional program requirements. Under this program, you may qualify for forgiveness of the remaining balance due on your eligible Direct Loans after you have made 120 payments on those loans under certain repayment plans while employed full time by certain public service employers.

How are Special Direct Consolidation Loans different than traditional Direct Consolidation Loans?

	Traditional Direct Consolidation Loan	Special Direct Consolidation Loan
Repayment Term	The repayment term for the loan starts over, giving students longer to repay their loan. A longer repayment term may result in lower monthly payments but will ultimately increase the amount the borrower will pay over the life of the loan since more interest will accrue during a longer repayment period.	Each loan that is consolidated retains its original repayment term. As a result, borrowers will pay less interest over the life of the loan than they would under the traditional consolidation program.
Interest Rate	A fixed rate based on the weighted average of the interest rates of those loans being consolidated rounded up to the nearest one-eighth of 1%, not to exceed 8.25%.	A fixed rate (not to exceed 8.25%) after applying the 0.25% interest rate reduction to the FFEL loans being consolidated.
Electronic Debit Benefit	Eligible for a 0.25% interest rate reduction if the loan is repaid through the Department's automatic debit system.	Eligible for an additional 0.25% interest rate reduction if the loan is repaid through the Department's automatic debit system.

Should I consolidate my loans into a Special Direct Consolidation Loan?

You should assess your personal student loan situation to determine if you should consolidate your loans into a Special Direct Consolidation Loan. While Special Direct Consolidation Loans offer certain benefits, such as a reduced interest rate, some borrowers may choose not to take advantage of this limited time offer because they are satisfied with the current repayment arrangements on their existing loans, or they wish to consolidate all of their federal loans (including those loans ineligible for this special consolidation opportunity) into a traditional Direct Consolidation Loan.

How much money will I save in interest if I obtain a Special Direct Consolidation Loan?

Your interest savings must be evaluated on a loan-by-loan basis. If you are eligible for a Special Direct Consolidation Loan, the federal loan servicer that contacts you starting in January 2012 will be able to provide you with detailed interest reduction information.

How will I know if I am eligible for a Special Direct Consolidation Loan?

A Department of Education servicer will notify you if you meet the eligibility criteria for a Special Direct Consolidation Loan. When you are notified of your eligibility, you will also receive information on how to apply for a Special Direct Consolidation Loan. Notifications will begin January 17, 2012.

What action should I take to initiate a Special Direct Consolidation Loan?

You do not need to take any action until you are contacted by a Department of Education servicer. If you're interested in taking out a Special Consolidation Loan, **it is critical that you do not start the traditional Direct Consolidation Loan process. If you consolidate your loans into a traditional Direct Consolidation Loan before Special Consolidation Loans are available, you will not be eligible for a Special Direct Consolidation Loan.**

If I have a traditional Direct Consolidation Loan application in process, can I cancel that application in order to apply for a Special Direct Consolidation Loan?

In some cases, a borrower may cancel a pending Direct Consolidation Loan application. However, once the traditional consolidation process has been completed, the application cannot be cancelled.

The guidelines that apply to canceling a traditional Direct Consolidation Loan application are summarized as follows:

<i>If You Have...</i>	<i>You May...</i>
Received your loan statement for your Direct Consolidation Loan and the 15-day adjustment period has passed	Not Cancel the traditional application
Received your loan statement for your Direct Consolidation Loan and the 15-day adjustment period has not passed	Cancel the traditional application
Not yet received your loan statement for your Direct Consolidation Loan	Cancel the traditional application

If you have questions about canceling a traditional Direct Consolidation Loan application, visit <http://loanconsolidation.ed.gov>.

Who will contact me if I am eligible for a Special Direct Consolidation Loan?

You will be contacted by one of the Department of Education's servicers if you are eligible for this special consolidation opportunity. The Department of Education servicers for this special initiative are FedLoan Servicing (PHEAA), Great Lakes Educational Loan Services, Inc., Nelnet, and Sallie Mae.

Will I be required to sign a new promissory note to obtain a Special Direct Consolidation Loan?

Yes, by consolidating your loans into a Special Direct Consolidation Loan you are securing a new loan. This requires a new promissory note.

What repayment options are available for Special Direct Consolidation Loans?

You can choose any of the following repayment plans to repay your Special Direct Consolidation Loan:

- Standard Repayment Plan
- Graduated Repayment Plan
- Extended Repayment Plan
- Income-Contingent Repayment (ICR) Plan
- Income-Based Repayment (IBR) Plan

However, it is important to remember that your repayment term does not start over when you receive a Special Direct Consolidation Loan. Instead, each commercially-held FFEL loan that you consolidate will retain its original repayment term. This means, for example, that if you had made three years of loan payments on a 10-year standard repayment plan prior to consolidating a Federal Stafford Loan and you choose the Standard Repayment Plan for your Special Direct Consolidation Loan, your remaining repayment term would continue to be 7 years.

Please note that if your Special Direct Consolidation Loan includes parent Federal PLUS Loans, or Federal Consolidation Loans that repaid parent PLUS loans, that portion of your consolidation loan may not be repaid under the IBR Plan. However, you have the option of paying that portion of your loan under the ICR Plan.

For more information about each repayment plan, visit [Repayment Plans and Calculators](#).

Where can I get more information about Special Direct Consolidation Loans?

If you have further questions about Special Consolidation Loans, you can call 1-800-4-FED-AID (1-800-433-3243) for more information.



[View President Obama's announcement](#) about special consolidation

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