



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF POSTSECONDARY EDUCATION

JUN 29 2010

THE ASSISTANT SECRETARY

GEN-10-13
FP-10-04

Subject: Temporary Authority for the Consolidation of Loans in an In-School Status

Summary: This letter provides schools and lenders with information on the statutory provision that makes certain borrowers eligible to consolidate loans that have not yet entered the grace period or repayment status (loans in an in-school status) into a Direct Consolidation Loan during the period from July 1, 2010 through June 30, 2011.

Dear Colleague:

President Obama signed the Health Care and Education Reconciliation Act of 2010 (HCERA), Public Law 111-152, on March 30, 2010. Title II of the HCERA, the SAFRA Act, made significant changes to the federal student loan programs including ending new loans under the Federal Family Education Loan (FFEL) Program as of June 30, 2010. [See DCL GEN-10-10]

Another provision of the SAFRA Act made temporary changes to the conditions under which a borrower may consolidate loans into a Federal Direct Consolidation Loan. These changes apply only to a Direct Consolidation Loan that is made based on an application received by the U.S. Department of Education on or after July 1, 2010 and before July 1, 2011.

Borrower Eligibility Under the HCERA Temporary Consolidation Authority

If a borrower's Consolidation Loan Application and Promissory Note is received by the U. S. Department of Education on or after July 1, 2010 and before July 1, 2011, the borrower may consolidate a loan that has not yet entered repayment status, including a loan that is in an in-school status, if the borrower meets the following requirements:

1. The borrower has one or more loans from two or more of the following categories: (i) FFEL Program loans that are held by an eligible lender; (ii) FFEL Program loans that have been purchased by the Department ("PUT" Loans); and (iii) Direct Loan Program Loans.
2. The borrower has not yet entered repayment on one or more of the loans in any of the categories in #1.
3. The borrower is not consolidating any loans other than loans from the categories listed in #1.

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Interest Rate Calculation for Loans made under the Temporary Consolidation Authority

For any Direct Consolidation Loan made to a borrower under the temporary consolidation authority, the interest rate will be calculated as follows:

- Unless the borrower is consolidating certain loans that have a variable interest rate (see below), the interest rate on the Direct Consolidation Loan is the lesser of (a) the weighted average of the interest rates on the loans being consolidated, or (b) 8.25% (that is, the interest rate is calculated in the same manner as the interest rate for a regular consolidation loan, but without the rounding up to the nearest higher one-eighth of one percent).
- If one or more of the loans a borrower consolidates is a Federal Stafford Loan (subsidized or unsubsidized), a Direct Subsidized Loan, or a Direct Unsubsidized Loan with a variable interest rate that is lower during the in-school, grace, and deferment periods, the interest rate on the Direct Consolidation Loan is the lesser of (a) the weighted average of the interest rates on the loans being consolidated, rounded to the nearest higher one-eighth of one percent, or (b) 8.25% (that is, the interest rate is calculated in the same manner as the interest rate for a regular consolidation loan).

Factors for Borrowers to Consider Before Consolidating

Because a Direct Consolidation Loan enters repayment on the date the loan is made, there are important factors a borrower needs to consider before deciding to consolidate loans into a Direct Consolidation Loan under this temporary authority.

Grace Period: There is no grace period on a Direct Consolidation Loan made under the temporary authority. If a borrower consolidates a loan that has a grace period while the borrower is still in school on at least a half-time basis and before the loan has entered the grace period, the borrower will not receive a grace period on that loan after the borrower ceases to be enrolled on at least a half-time basis. The borrower will, however, be eligible for an in-school deferment on the Direct Consolidation Loan while enrolled at least half-time at an eligible institution. If the borrower waits to consolidate until after the loan has entered the grace period, the borrower may delay the processing of the Direct Consolidation Loan application until the end of the grace period by completing Item 17 in section C1 of the Direct Consolidation Loan Application and Promissory Note. Borrowers who delay applying until their loans enter the grace period and whose application is received by the Department before the July 1, 2011 deadline may receive the modified interest rate associated with the temporary authority, provided that they are not consolidating certain variable interest rate loans, as explained above.

PLUS Loans: Borrowers with Federal PLUS Loans or Direct PLUS Loans that were first disbursed on or after July 1, 2008, are eligible to defer repayment of these loans for a 6-month period that begins on the date the borrower (or the dependent student on whose behalf the borrower obtained the loan) ceases to be enrolled at least half-time. Parent PLUS borrowers are also eligible to defer repayment while the dependent student is enrolled in school on at least a

half-time basis. If a PLUS borrower consolidates one of these loans while the borrower (or the dependent student) is still enrolled in school at least half-time, or during the 6-month post-enrollment deferment period, the borrower will lose eligibility for these deferments.

Borrowers should be encouraged to consider these factors prior to consolidating under this temporary authority.

If you or a borrower has questions about the temporary Direct Consolidation loan authority discussed in this letter, please contact Pamela Moran at 202-502-7732 or at Pamela.Moran@ed.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "Daniel T. Madzelan", with a long horizontal flourish extending to the right.

Daniel T. Madzelan
Delegated the Authority to Perform
the Functions and Duties of the
Assistant Secretary for
Postsecondary Education