Session 18L

Session # 18

Direct Consolidation Loans -- Partnering a Process for the Student

Consolidation is about debt management

It is about the best solution for individual borrowers to manage debt

It is about institutions, lenders, and the U.S. Department of Education working together to assist our student customers

The Consolidation Process

- **Our part of the partnership**
  - Receiving and expeditiously handling an application from a borrower
  - Contacting loan holders for payoff amounts
  - Paying off loan holders accurately
  - Consolidating the underlying loans into a consolidation loan with one monthly payment

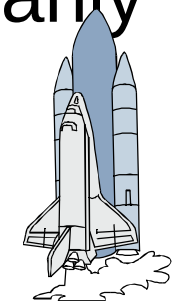
The Consolidation Process

Your part of the partnership

- Exit counseling student borrowers, as they leave school, on consolidation as a debt management option
- Completing a verification certification form
- Applying timely payoffs to borrower loans
- Adjusting promptly for over and underpayments

History of the Program

- Late summer 1996 the Department of Education begins to implement, in earnest, Direct Consolidation Services
- Unanticipated problems ensued which resulted in a serious backlog of applications
- On August 26, 1997 the Department temporarily suspended the program to new applicants
- On December 1, 1997, with procedural improvements, new quality control processes and contract oversight, we began to accept new applications



Consolidation Works

- Consolidated 1.7 billion dollars between October 1, 1998 and January 31, 1999
- 913 million from FFELP borrowers
- 786 million from Direct Loan borrowers

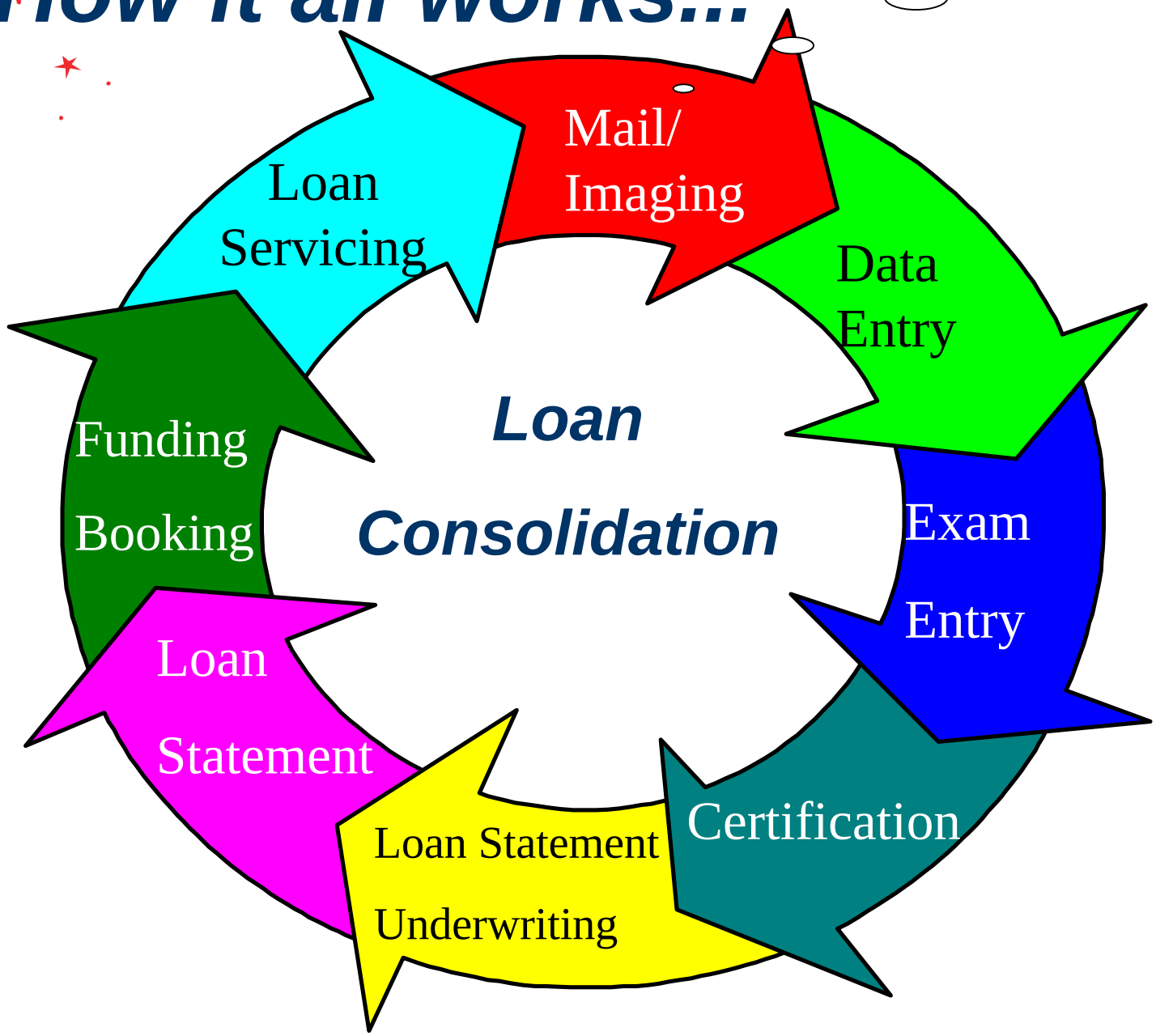
Consolidation Works

(continued)

- Made more than 200,000 consolidation loans through our normal processes since December 1, 1997
- Have booked more than 153,000 loans at 7.46% under our normal process with an average time to booking of 47 days
- Are making more than 185,000 loans through a special Express Refinance process offered to Direct Loan borrowers

How it all works...

Start Here...



Mail Room / Imaging

- Application received (paper, phone, WEB)
- Does application have a SSN, Name, and signature? If not application is returned to the customer
- Paper applications are scanned and indexed

Data Entry

- Every application is double data entered to ensure accuracy
- WEB and phone applications bypass this stage

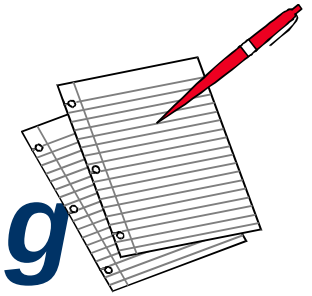
Exam Entry

- Application reviewed for completeness
- If incomplete, missing information is researched and borrowers are called if necessary
- If unable to obtain missing information, application returned to the borrower

Certification

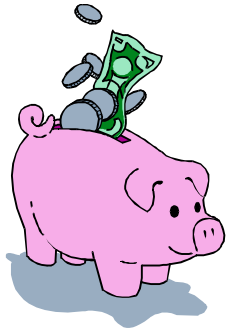
- If Plus Loan, credit check performed
- If ICR Waiver received, ICR is sent to the IRS for validation
- Electronic Certification Process
  - DCS / DLSS / Sallie Mae
- Paper Certifications mailed
  - Loan Holders, Guarantee Agencies, Schools

Loan Statement /Underwriting



- If a borrower has more than six loans or a loan balance greater than $30,000, the loan is verified by the underwriting unit
- Loan Statement mailed to the borrower
- Loans are scheduled for payoff in 10 days from the date of the Loan Statement if the borrower does not indicate that a change is needed

Funding & Booking



- Loan holders are paid by:
  - Check
  - SF1081
  - Electronic Credit
- Loan transactions are sent to the Direct Loan Servicing Center electronically

Direct Loan Servicing

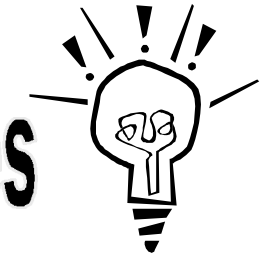
- Direct Loan Servicing sets up a new consolidation account for the borrower
- The borrower is sent a “Welcome Letter” and advised of payment obligations

Why Consolidate?

Borrowers can pay less each month

Why Consolidate?

New Weighted Average Interest Rates



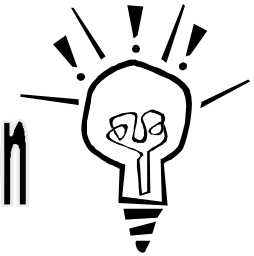
The interest rate on each underlying loan and ratio of that loan amount to the total loan amount is used to calculate the interest rate on the consolidation loan

Current weighted average rate will never exceed 8.25%

Rate is fixed for life of loan

Why Consolidate?

Weighted Average and In-School Loan Consolidation



In-school = A loan that has never gone into repayment

Underlying interest rate is either 7.66% or 6.86% depending on when loan was borrowed

Amount of benefit depends on ratio of loans in in-school status to ratio of loan not in an in-school status

Why Consolidate?

Borrowers can consolidate while they are in-school

Borrowers won't loose their grace period

Borrowers will have one lender to deal with for in-school deferments, forbearance, ...

Why Consolidate?

FLEXIBILITY

Borrowers will have more repayment options than ever before…***as an example borrowers can payback their loan through payments tied to their income***

Borrowers can change their repayment plan at anytime

Why Consolidate?

CONVENIENCE

Borrower has one Lender

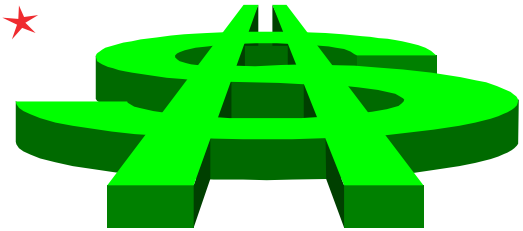
Borrowers can get everything on one statement

Borrowers have one contact location for deferments, forbearances, and/or changes to demographic information

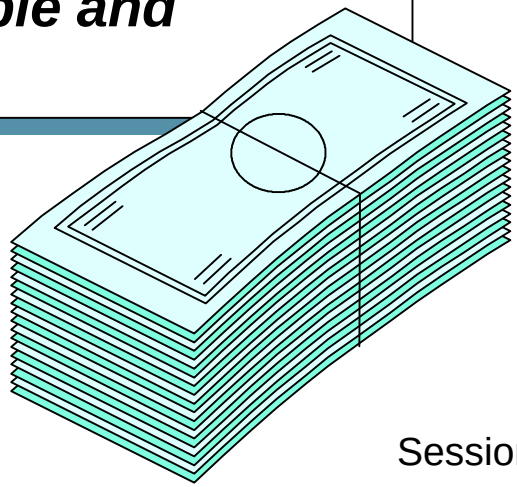
Borrowers' loan will not be sold to another lender unless the borrower chooses to do so

Why Consolidate?

PROFITABILITY



Borrowers can consolidate defaulted loans…***this affords borrowers the opportunity to repair their credit in a manner that is affordable, flexible and convenient.***



Exit Counseling Your Student Borrowers

ADVISE borrowers on the factors they should consider when deciding if consolidation is right for them.

Interest Rate: What is my current interest rate and will consolidation improve upon it?

Monthly Payment: What am I paying monthly and can I afford to continue with my payments in this manner?

Exit Counseling Your Student Borrowers

ADVISE ...

Payment Terms: Would it help to be able to extend my payments over a longer period, and how does that affect me?

Benefits: What are my current lenders offering?

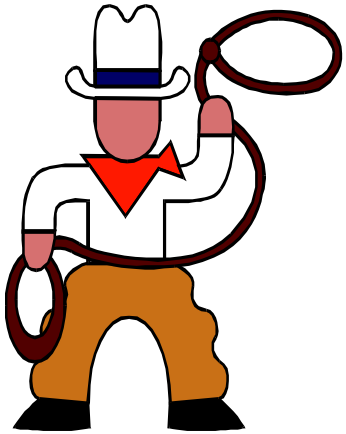
Exit Counseling Your Student Borrowers

Help Them Compare

Provide borrowers with a general benefits comparison in the various loan programs

Exit Counseling Your Student Borrowers

How Can We Help?



- Electronic Exit Counseling Interface
- Direct Loan Web Page
- Personal Involvement in Exit Counseling Sessions
- Provide consolidation materials for borrowers

“The Loan Arrangers”

Partnering in Borrower Assistance

Customer Service Support

- Call Center Support for Processing Status, Information, and Application Request. (800) 557-7392
- Website for On line Application Submission WWW.ED.GOV/DIRECTLOAN
- Automated Application Request is available 24 hours per day, 7 days a week.
- TDD (Hearing Impaired Only) (800) 557-7395

Partnering in Borrower Assistance

Loan Consolidation Operations

LCC Louisville

10100 Linn Station Rd.

Louisville, KY 40223

LCC Montgomery

474 S. Court Street

Montgomery, AL 36104

Partnering in Borrower Assistance

Contact Us Personally

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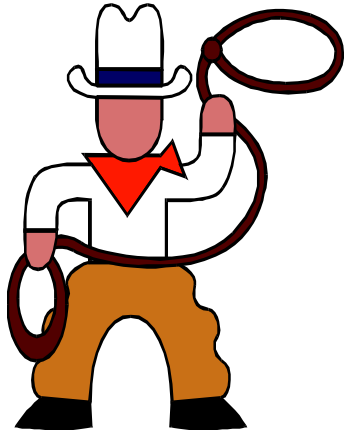

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Partnering in Solutions