

## **Federal Direct Loan Program Frequently Asked Questions for Borrowers**

- 1. What are the changes taking place within the federal student loan program and why?**  
With the recently enacted Health Care and Education Affordability Reconciliation Act of 2010 (H.R. 4872) signed by President Obama on March 30, 2010, all Federal Stafford, PLUS and Consolidation loans with a first disbursement date on or after July 1, 2010 will be processed through the William D. Ford Direct Loan program. As a result of this new law, private lenders, such as credit unions or banks, will no longer have a role in originating or funding these loans as they did in the Federal Family Education Loan (FFEL) program. Going forward, borrowers interested in applying for Federal Direct Loans will work directly with their school rather than their lending institution.
- 2. What is the difference between the Federal Direct Loan Program and the Federal Family Education Loan (FFEL) Program?**  
The most important difference between the Federal Direct Loan program and the FFEL Program is the source of funding. Direct loans are funded through the U.S. Department of Education using funds obtained from the U.S. Treasury. In the FFEL program, funds come from credit unions and banks.
- 3. Will I still be able to continue borrowing through the same lender as last year?**  
No. If you borrow a Federal Stafford, Parent PLUS or Grad PLUS loan for the 2010-11 academic year, you will be required to borrow through the Direct Loan program.
- 4. How do I apply?**  
The initial steps of the application process remain unchanged. You will complete the Free Application for Federal Student Aid (FAFSA) each academic year that you would like to be considered for financial aid. Your school will notify you of the loan amounts being offered, usually in an award letter. If it is determined that you are eligible for federal loans, you will need to work with the financial aid office to complete the Federal Direct Loan Master Promissory Note, rather than your lender.
- 5. Do I have to complete another Master Promissory Note?**  
If you had not taken a Federal Direct Loan last academic year, yes, you must complete a Federal Direct Loan Master Promissory Note (MPN) for the new loan for the 2010-11 academic year because you will be borrowing from a new lender, the Department of Education. Contact the financial aid office at your school to access and complete the Direct Loan MPN.
- 6. What will happen to the existing loans that I have borrowed from my credit union?**  
Any previous loans you borrowed from your credit union will be serviced by the chosen servicer, Great Lakes. As long as you are enrolled in school on at least a half-time basis, your prior year federal loan(s) will continue to be deferred.
- 7. Where can I access information about an existing loan funded by my credit union?**  
You can access your existing loan account information through the loan servicer, Great Lakes at 1.800.236.4300, or at [www.mygreatlakes.org](http://www.mygreatlakes.org).
- 8. How do I know where my loans are being serviced?**  
You are able to access your loan history by accessing the [National Student Loan Data System](http://www.nsls.ed.gov) (NSLDS) at [www.nsls.ed.gov](http://www.nsls.ed.gov). This is the Department of Education's central database that houses your loan information.
- 9. What should I do if I want to consolidate my loans after July 1, 2010?**  
You have the option to consolidate your loans into the [Federal Direct Consolidation Loan Program](http://www.loanconsolidation.ed.gov) ([www.loanconsolidation.ed.gov](http://www.loanconsolidation.ed.gov)) with the U.S. Department of Education as the lender.
- 10. Am I able to consolidate my loans if they are in an in-school status?**  
If you have concerns regarding having new loans with Direct Lending and past loans with other lenders/servicers, the Department of Education has established a temporary loan consolidation authority

which allows consolidation for loans in an in-school status. You can apply for such a loan if the application is received between July 1, 2010 and July 1, 2011. The following eligibility conditions apply:

1. You must have loans in at least two of the following categories:

- Federal Direct Loans
- FFELP loans owned by a lender, and
- FFELP loans owned by the Department of Education ("PUT" loans). AND

2. You must have at least one eligible loan in the above categories that has not yet entered repayment.

**11. What is the difference between the temporary in-school consolidation and the regular consolidation?**

Under the temporary in-school consolidation, a borrower can include loans that are still reflecting in-school status. Today "regular" consolidation only permits including a loan if it is in grace or has already entered repayment.

**12. What is the interest rate for temporary in-school consolidation?**

The interest rate is calculated the same as the Repayment Consolidation loan with the weighted average of the interest rates of the loans included in the consolidation loan. The exception with the temporary in-school consolidation loan is that it does **not** include rounding the final rate upward to the nearest 1/8<sup>th</sup> of one percent as regular consolidation allows.

**13. Will I lose the grace period by consolidating through the temporary in-school consolidation option?**

Yes. The legislation does not allow borrowers who consolidate while in-school to keep their six month grace period once they leave school. Repayment will begin immediately after the student graduates or drops below half time status.

**14. Why is the grace period eliminated for the temporary in-school loan consolidation option?**

Under a consolidation loan, there is no such thing as an in-school period or grace period. These periods or statuses only exist for a Stafford Loan. However a full-time student borrower that consolidates can immediately defer payments on his/her consolidation loan using an in-school deferment. At the conclusion of the in-school deferment, a consolidation loan does not offer a grace period or additional 6 month deferment.

**15. Are parent PLUS and Grad PLUS borrowers eligible to consolidate under the temporary in-school consolidation option?**

Both parent PLUS or Grad PLUS loans enter repayment as soon as they are fully disbursed. Neither of these loan types have a true in-school period. The temporary authority really only applies to Stafford loans that truly have an in-school period.

**16. Under what circumstances would I benefit from using the temporary in-school consolidation option rather than the regular federal consolidation loan?**

You should weigh the benefits of (1) consolidating in-school to obtain a single servicer (as opposed to consolidation during your grace period prior to repayment) and (2) an interest rate that is not rounded up to the nearest 1/8<sup>th</sup> of one percent versus (1) loss of grace period on Stafford loans and (2) loss of PLUS deferment options.