



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION

MAY 6 2005

THE ASSISTANT SECRETARY

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Subject: Lenders' Options for Determining Federal Consolidation Loan Interest Rates and Permitting Borrowers to Enter Repayment Early

Summary: This letter addresses questions relating to the determination of consolidation loan interest rates under the Federal Family Education Loan (FFEL) Program and clarifies the early repayment option available to borrowers under Section 428(b)(7) of the Higher Education Act of 1965, as amended.

Dear Colleague:

FFEL Consolidation Loan Weighted Average Interest Rate

Consolidation loans have fixed interest rates that are based on the weighted average of the interest rates on the loans being consolidated. A lender can provide a new consolidation loan borrower with the lowest statutory weighted average interest rate for loans by using the lower of the weighted average of the interest rates on the loans being consolidated as of July 1 or the date the lender received the borrower's consolidation loan application. The lender should apply a consistent method of determining when an application is received.

If a borrower specifically requests that his or her loan be disbursed prior to July 1st, the lender should honor the borrower's request, if possible.

This guidance is consistent with the Department's treatment of consolidation loan interest rates for Direct Consolidation Loans.

Permitting Borrowers to Enter Repayment Early

Under the Higher Education Act of 1965, as amended and the Department's regulations, a borrower can request a repayment schedule that provides for repayment to commence at a date that is earlier than six months after the date the borrower ceases to carry at least one-half the normal full time academic workload. If the lender grants the request, the loan enters the repayment period and the borrower waives any applicable grace period. This is the case even if the borrower is currently enrolled in school.

Such a borrower will be eligible to obtain a consolidation loan to repay the loan on which early conversion to repayment was granted, assuming all other eligibility criteria are met. As stated above, the borrower waives any applicable grace period, now and in the future.

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If the lender determines that the borrower is still enrolled, the lender can put the loan that will now be in repayment, into an in-school deferment status at the borrower's request. The interest rate on the loan would be the deferment rate. If the borrower consolidates the Stafford Loan, the deferment interest rate should be used in calculating the weighted average interest rate on the consolidation loan.

We have attached answers to some questions submitted by the National Council of Higher Education Loan Programs (NCHELP) that provide more detail on the issues addressed in this letter. Should 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,



Sally L. Stroup
Assistant Secretary
Office of Postsecondary Education

Attachment

Questions & Answers (Q&A)

Permitting Borrowers to Enter Repayment Early

May a Federal Family Education Loan (FFEL) Stafford Loan borrower currently attending school on at least a one-half time basis request that his or her loan be placed into repayment to qualify that loan for inclusion in a FFEL consolidation loan?

Yes, a FFEL Stafford Loan borrower may request the lender of his or her loan to put the loan into repayment status even if the student is still enrolled and plans to remain enrolled. When the loan moves directly into repayment status, the borrower loses the benefit of a grace period, now and in the future.

Q2. Does the request by the borrower to enter repayment status early need to be in writing?

The request does not need to be in writing.

Q3. Is the lender of the FFEL Stafford Loan required to grant the borrower's request to enter repayment status early?

A3. Lenders are not required to grant a borrower's request to enter repayment status early.

If a borrower wants to consolidate a Stafford Loan on which the borrower entered repayment status early, what interest rate for the underlying loan should be used when computing the weighted average interest rate on the consolidation loan?

If the lender determines the borrower is still enrolled, the lender can put the Stafford Loan, that will now be in repayment status, into an in-school deferment status at the borrower's request. The interest rate on the loan would be the deferment rate. If the borrower consolidates the Stafford Loan, the deferment interest rate would be used in calculating the weighted average interest rate on the consolidation loan.

Q5. Does the borrower forfeit the right to a grace period on the Stafford Loan that was put into repayment status?

A5. By entering repayment early, the borrower forfeits his or her grace period on the Stafford Loan.

Q6. How long can a lender hold a Consolidation Loan application received before July before making the Consolidation Loan at the pre-July 1 interest rate?

A6. A lender may hold an application only for the period of time necessary to receive and process the loan verification certificates and disburse payoff amounts to the borrower's loan holders.

Q7. Can a lender consider a borrower's loans to not be in an in-school status if the borrower is not in attendance in courses during the summer break period?

A7. No, a borrower who would normally be considered "enrolled" during the summer break period under current program guidance must make a specific request to have his or her loans put into repayment status early.