

SUPPORTING STATEMENT

Federal Direct Consolidation Loan Program Application Documents

OMB No. 1845-0053

A. Justification

1. Necessity of Information Collected

The Student Loan Reform Act of 1993, enacted on August 10, 1993, established the William D. Ford Federal Direct Loan (Direct Loan) Program under Title IV, Part D, of the Higher Education Act of 1965, as amended (the HEA). This legislation authorized the Federal Direct Consolidation Loan Program, which allows eligible borrowers to consolidate certain federal education loans into a Federal Direct Consolidation Loan (Direct Consolidation Loan). The regulations governing Direct Consolidation Loans are contained in 34 CFR 685.220.

34 CFR 685.220(e) requires a borrower who wishes to receive a Direct Consolidation Loan to submit a completed application to the Department of Education (ED). The processing of a borrower's consolidation application involves the three forms that are described in Item 2 of this Supporting Statement.

ED is requesting a revision of the currently approved collection to reflect significant changes to the terms and conditions of Direct Consolidation Loans that were made by the Higher Education Reconciliation Act of 2005 (the HERA), Public Law 109-171. The HERA-related changes that affect Direct Consolidation Loans include the following:

- Elimination of borrower eligibility to consolidate loans that are in an in-school status.
- Elimination of borrower eligibility for joint consolidation loans.
- Elimination of borrower eligibility to consolidate an existing consolidation loan without including another eligible loan (with certain exceptions for borrowers consolidating single Federal Consolidation Loans into the Direct Loan Program).
- Elimination of Direct PLUS Loans as a separate category of Direct Consolidation Loans with special eligibility requirements.
- New repayment plans for Direct Consolidation Loan borrowers.
- Change in the treatment of Federal Perkins Loans that are consolidated into a Direct Consolidation Loan.
- New military deferment.
- New identity theft loan discharge provision.

In addition to the HERA-related changes noted above, ED has also revised the language and format of the currently approved forms for greater consistency with the promissory notes used for other types of Direct Loan Program loans, and with the consolidation loan application and promissory note used in the Federal Family Education Loan (FFEL) Program (OMB No. 1845-0036). The more significant of these additional changes are the following:

- Incorporation of the Borrower’s Rights and Responsibilities Statement into the application and promissory note itself. This is consistent with the format of the revised Direct PLUS Loan Application and Master Promissory Note (OMB No. 1845-0068; currently in clearance) and with the FFEL Program promissory notes. Currently, the Direct Consolidation Loan Borrower’s Rights and Responsibilities Statement is a separate document.
- Creation of separate sections on the application and promissory note for loans that the borrower wants to consolidate, and loans that the borrower does not want to consolidate. On the currently approved form, there is a single section for listing all loans, and the borrower must indicate whether each individual loan is to be consolidated or not consolidated. Having separate sections for loans to be consolidated and loans not to be consolidated makes it easier to complete the application and promissory note, is consistent with the FFEL consolidation application and promissory note, and will more clearly identify the loans that are to be consolidated, thus reducing the incidence of errors.
- Revision of the section of the Direct Consolidation Loan application and promissory note where the borrower chooses a repayment plan. On the current form, the borrower selects a repayment plan on the application and promissory note itself. However, if the borrower chooses the Income Contingent Repayment (ICR) Plan, the borrower must also complete portions of a separate document, the Repayment Plan Selection form (OMB No. 1845-0014, currently in clearance). The revised application and promissory note instructs the borrower to make a repayment plan selection by completing the Repayment Plan Selection form. This change makes the repayment plan selection process consistent with the process used for other types of Direct Loans, and it eliminates the requirement for borrowers who select the ICR Plan to furnish repayment-related information on two separate forms.
- Addition of a new data element on the application and promissory note to determine whether the applicant wants to delay the consolidation of loans that are in a grace period until near the end of the grace period. This data element has been added for consistency with the FFEL consolidation loan application and promissory note.

Note: The only other new data element that has been added is an optional item on the application and promissory note for the applicant to provide an e-mail address for the listed references. If provided, the e-mail address may be used by ED to contact the references.

2. Purpose and Use of Information Collected

ED has used the collection of information on the previously approved consolidation forms to make Direct Consolidation Loans to applicants. The collection of information on the revised forms included in this package continues to be necessary and will be used for the same purpose. There are three consolidation loan forms that are used as follows:

- **Federal Direct Consolidation Loan Application and Promissory Note (application and promissory note), with Additional Loan Listing Sheet.** The application and promissory note collects information about the loans that a

borrower wants to consolidate and other information needed by ED to process a borrower's application for a Direct Consolidation Loan. It also provides the borrower with information about the terms and conditions of a Direct Consolidation Loan, and serves as the borrower's legally binding agreement to repay the loan. A borrower may obtain an application and promissory note from our consolidation website or by contacting our Consolidation Center. Copies of the application and promissory note may also be available from school financial aid offices. A borrower may complete and return a paper copy of the application and promissory note by mail, or may complete and submit the application electronically on our website.

Instructions for completing the application and promissory note are provided in an accompanying document that is included with this submission.

The Additional Loan Listing Sheet is simply an extension of the application and promissory note that may be used by an applicant if there is insufficient space on the application and promissory note to list all of the loans that he or she wishes to consolidate.

- **Federal Direct Consolidation Loan Verification Certificate (verification certificate).** The verification certificate is used to confirm that a borrower's loans are eligible for consolidation, and to verify the current payoff amount of each loan. Once a borrower's application and promissory note has been processed, our Consolidation Center sends a verification certificate to the loan holder or loan servicer of each loan that the borrower wants to consolidate. After completing the verification certificate, the loan holder/servicer returns the form to the Consolidation Center. Some loan holders/servicers provide the verification information to ED electronically via our website or a batch process.
- **Federal Direct Consolidation Loan Request to Add Loans (request to add loans).** The request to add loans may be used by borrowers to add additional loans to a Direct Consolidation Loans after the application and promissory note has been submitted, or up to 180 days after a Direct Consolidation Loan has been made.

3. Consideration of Improved Information Technology

ED continues to maximize the use of available information technology in making Direct Consolidation Loans. The application and promissory note, verification certificate, and request to add loans are all available on our website in PDF format for respondents to download, complete, and submit to us. In addition, respondents may complete the application and promissory note and the verification certificate electronically.

Application and promissory note

Since July 2001, Direct Consolidation Loan applicants have had the option of completing the entire application and promissory note – including signing it – electronically on our website. (Applicants who do not wish to provide an electronic signature may still submit their application information to us electronically, and then sign and return a paper application and promissory note.) Approximately 77% of Direct Consolidation Loan

applicants complete the application and promissory note electronically on our website. Applicants may also make use of information technology by accessing their loan information in our National Student Loan Data System (NSLDS) and using that information to complete Sections C1 and C2 (Education Loan Indebtedness) of the application and promissory note.

In the future, ED may consider options for prepopulating Sections A (Borrower Information), C1, and C2 of the application and promissory note using information available in our Direct Loan Servicing system and/or NSLDS. To allow for this possibility, the instructions for completing the application and promissory inform borrowers that some of the information in these sections may have been completed for them. Prepopulating portions of the application and promissory note would reduce burden on applicants, since they would only have to review the preprinted information for completeness and accuracy.

Note: OMB's terms of clearance for the currently approved collection required ED to submit a change worksheet to account for any reduction in burden resulting from the repopulation of certain items on the application and promissory note. Although ED had intended to begin repopulation of the form in August 2006, that effort was part of a planned systems change that was discontinued. As noted above, ED may reconsider options for prepopulating the application and promissory note in the future.

Verification certificate

All loan holders/servicers have the option of completing the verification certificate electronically. They may do this (1) by completing and returning a verification certificate for each applicant via our website for loan holders/servicers or (2) by completing and returning verification certificates for multiple applicants through a batch process. Both electronic processes reduce burden for loan holders/servicers by providing a more convenient, efficient and expedient way to complete and return the required verification certificates. Currently approximately 75% of verification certificates are completed electronically.

Related to the verification certificate, in July 2001 we implemented an electronic funds transfer (EFT) process for paying off an applicant's loans after they have been verified by the loan holder/servicer. Since the last submission for this collection, the number of loan holders/servicers that participate in the EFT process has increased from 13 to approximately 135.

4. Efforts to Identify Duplication

A thorough review of procedures indicates that current requirements are minimal and avoid duplication. There is no similar information available that can be used or modified for these purposes at this time.

5. Burden Minimization as Applied to Small Businesses

No small businesses are impacted by this collection.

6. Consequences of Less Frequent Data Collection

The application and promissory note and the verification certificate will be completed by an applicant or a loan holder/servicer one time for each Direct Consolidation Loan.

The request to add loans will be completed by a borrower only when the borrower wants to request that one or more loans not included on the original application and promissory note be added to the borrower's Direct Consolidation Loan, either before the loan is made or within 180 days of the date the loan is made.

7. Special Circumstances Governing Data Collection

The collection of this information will be conducted in a manner that is consistent with the guidelines in 5 CFR 1320.5(d)(2), with one exception. The verification certificate must be completed and returned by the loan holder/servicer within 10 business days of the date received. This deadline is established in 34 CFR 685.220(f)(1)(i).

8. Consultations Outside the Agency

ED solicited suggestions for ways to make the consolidation forms easier to use from ED and ED contractor staff involved in processing Direct Consolidation Loan applications, and the forms included in this clearance package reflect some of the suggestions received from those sources. In developing the revised forms, ED also considered comments that were submitted by the FFEL industry in connection with the recent clearance of the FFEL consolidation loan application and promissory note (OMB No. 1845-0036).

9. Payments or Gifts to Respondents

No payments or gifts will be provided to respondents.

10. Assurance of Confidentiality

The application and promissory note and request to add loans include a Privacy Act Notice that (1) informs the respondent of the statutory authority for the information collection; (2) explains that disclosure of the requested information is voluntary, but is required in order for ED to process the request for a Direct Consolidation Loan; and (3) identifies the third parties to whom the information may be disclosed, and explains the circumstances under which such disclosures may occur.

11. Questions of a Sensitive Nature

The Direct Consolidation Loan forms do not request any sensitive information.

12. Annual Hour Burden for Respondents/Recordkeepers

The total estimated annual reporting hour burden for this collection is approximately 322,629 hours. This represents the total of the burden estimates for the hour burden for the application and promissory note, the verification certificate, and the request to add loans. We calculated the burden estimate for each form as follows:

Application and promissory note (includes Additional Loan Listing Sheet)

Respondents	221,000
Responses	x 1

Hours per response	<u>x 1.0 (60 minutes)</u>
Annual reporting burden	<u>221,000 hours</u>

Verification certificate

Respondents	7,000
Responses	x 95
Hours per response	<u>x 0.15 (9 minutes)</u>
Annual reporting burden	<u>99,750 hours</u>

NOTE: Each Direct Consolidation Loan application averages three different loan holders/servicers. This means that an average of three verification certificates will be generated for each Direct Consolidation Loan, for a total of 663,000 responses (3 x 221,000 = 663,000). There are approximately 7,000 loan holders/servicers. The average number of responses was obtained by dividing the total number of responses by the number of respondents:

$$663,000 \div 7,000 = 95$$

Request to add loans

Respondents	11,050
Responses	x 1
Hours per response	<u>x 0.17 (10 minutes)</u>
Annual reporting burden	<u>1,879 hours</u>

There is an annual estimated cost to respondents of \$367,791.00. This represents the total of the annual cost estimates for the application and promissory note, the verification certificate, and the request to add loans. The cost estimate for each form was calculated as follows:

Application and promissory note

Respondents	221,000
Responses	x 1
Postage cost per response	x \$.41
Annual cost burden	<hr/> \$90,610.00

Verification certificate

Respondents	7000
Responses	x 95
Postage cost per response	x \$.41
Annual cost burden	<hr/> \$272,650.00

Request to add loans

Respondents	11,050
Responses	x 1
Postage cost per response	x \$.41
Annual cost burden	<hr/> \$4,531.00

Although the total annual cost burden estimate assumes that the postage cost applies to all respondents, note that approximately 77% of applications and promissory notes are submitted electronically, and approximately 75% of verification certificates are submitted electronically. Respondents who submit forms electronically incur no postage costs. They may, however, incur minimal costs imposed by Internet providers for Internet access. ED expects that in most cases, any Internet access fees charged to respondents for the time required to submit a form would be less than the cost of postage.

13. Estimated Annual Cost Burden to Respondents/Recordkeepers

There are no capital/startup costs to respondents, nor are there any annual costs to respondents associated with operating or maintaining systems or purchasing services.

14. Estimated Annual Cost to the Federal Government

The total estimated annual cost to the federal government for this collection is \$41,440,853.00. This estimate includes the following:

Printing forms	\$12,453.00
Processing	\$41,428,400.00
Total	<hr/> \$41,440,853.00

15. Reason for Changes to Annual Reporting/Recordkeeping Hour Burden and Annual Reporting/Recordkeeping Cost Burden to Respondents

As a result of changes made by the HERA that are expected to reduce the number of Direct Consolidation Loans that are made, ED is reporting a decrease of 357,851 hours.

16. Collection of Information with Published Results

The results of this information collection will not be published.

17. Approval Not to Display Expiration Date

ED is not seeking this approval.

18. Exceptions to the Certification Statement

ED is not requesting any exceptions to the “Certification for Paperwork Reduction Act Submissions” of OMB Form 83-I.

B. Collection of Information Employing Statistical Methods

This collection of information does not employ any statistical methods.