MEMORANDUM

United States Department of Education
Washington, DC 20202

To: Sharon Mar
OMB Desk Officer

From: Jeff Baker
Director, Policy Liaison and Implementation
Federal Student Aid
U.S. Department of Education

Subject: Request for emergency clearance of the Loan Verification Certificate for Special Direct Consolidation Loans made under the William D. Ford Federal Direct Loan Program

Date: November 21, 2011

The U.S. Department of Education (the Department) requests emergency clearance of the Loan Verification Certificate (LVC) that will be used beginning in January 2012 in connection with making Direct Consolidation Loans through the William D. Ford Federal Direct Loan (Direct Loan) Program under the special consolidation initiative announced by the White House in an October 25, 2011 fact sheet titled "Help Americans Manage Student Loan Debt." Direct Consolidation Loans made under this initiative are referred to as "Special Direct Consolidation Loans." The LVC collects information from the holders of the loans being consolidated that is needed by the Department to make and service Special Direct Consolidation Loans.

The special consolidation initiative is targeted at so-called "split" borrowers who have at least one commercially-held Federal Family Education Loan (FFEL) Program loan and at least one loan that is held by the Department (either a Direct Loan or a FFEL Program loan that was previously sold to the Department by a FFEL Program lender). Currently, these borrowers have at least two different servicers, receive at least two billing statements, and must make at least two separate monthly student loan payments, a circumstance that places them at greater risk for delinquency and default. Consolidation of their commercially-held FFEL Program loans into the Direct Loan Program would result in these borrowers having just one loan servicer (one of the federal loan servicers under contract to the Department), receiving just one bill, and being required to make just one monthly student loan payment, greatly simplifying the repayment process and reducing the likelihood of default.

Special Direct Consolidation Loans offer the following incentives to split borrowers if they choose to consolidate their commercially-held FFEL Program loans into the Direct Loan Program:

- The current interest rate of each loan that is consolidated will be retained as a fixed rate. With a traditional Direct Consolidation Loan, the interest rate is the weighted average of the rates of the loans being consolidated, rounded up to the next higher $1/8^{th}$ of one percent. There is no rounding up with Special Direct Consolidation Loans.

- The interest rate on each loan that is consolidated will be reduced by 0.25%.

- The repayment period for each loan that is consolidated will remain the same after consolidation as it was when the loan was held by the commercial FFEL Program lender. That is, time spent in repayment prior to consolidation will count toward the repayment period on the Special Direct Consolidation Loan. With a traditional Direct Consolidation Loan, a new repayment period begins upon consolidation. As a result, borrowers who consolidate under the special consolidation initiative will pay less interest in total over the life of a Special Direct Consolidation Loan than would be the case with a traditional Direct Consolidation Loan.

The Department is providing the incentives described above under the authority of section 455(b)(8)(A) of the Higher Education Act of 1965, as amended (the HEA). However, the Budget Control Act of 2011 (Pub. L. 112-25) amended this section of the law by eliminating the Department's authority to offer reduced interest rates or other repayment incentives to Direct Loan borrowers (other than an interest rate reduction for electronic debiting of payments) effective for loans first disbursed on or after July 1, 2012. As a result, the Department can offer Special Direct Consolidation Loans only to borrowers who submit applications by June 30, 2012.

We are requesting emergency clearance of the Special Direct Consolidation Loan LVC by December 9, 2011 to provide the Department's federal loan servicers with sufficient time to operationalize the form so that it will be ready for use by January 2012, the beginning date of the special consolidation initiative as announced by the White House. Use of the normal clearance process would prevent the Department from making Special Direct Consolidation Loans by the announced implementation date. Further, because the statutory authority under which the Department is providing the incentives described above will end on June 30, 2012, the use of normal clearance procedures would significantly shorten the already limited period during which Special Direct Consolidation Loans can be offered, with the result that fewer borrowers would be able to benefit from the reduced interest rates offered as part of the special initiative.

Although the statutory authority under which Special Direct Consolidation Loans will be made ends on June 30, 2012, the LVC will continue to be needed after that date to process Special Direct Consolidation Loan applications submitted by borrowers through June 30, 2012, and to allow borrowers to add additional loans to a Special Direct Consolidation Loan, as provided under the Direct Loan Program regulations. Upon receiving emergency clearance of the Special Direct Consolidation Loan LVC, the Department will submit the LVC for the regular clearance process.

Sharon, please let me know if you have questions related to this emergency clearance request. I may be reached at (202) 377-4009, or by e-mail at jeff.baker@ed.gov, or you may contact Jon Utz of my staff at (202) 377-4040 or by e-mail at jon.utz@ed.gov.

Enclosures:

Supporting statement
Draft Special Direct Consolidation Loan LVC