NATIONAL DIRECT STUDENT LOAN COALITION

www.directstudentloancoalition.org

Benefits of Direct Lending

There are many reasons that a school chooses the Federal Direct Student Loan Program (DL) over the Federal Family Education Program (FFELP):

- Guaranteed availability of loan capital
- Eligibility of all schools and their students regardless of default rate or loan volume
- Over-all simplicity of DL
- The ability to provide superior one-stop-shopping service to students
- Significantly lower institutional administrative costs and
- Consistently lower costs to taxpayers as evidenced by reports generated by the Government Accountability Office (GAO), the Congressional Budget Office (CBO), the Office of Management and Budget (OMB) and each of the presidents' budgets since the inception of the DL program.

In addition, since the implementation of Federal Direct Student Loan program, universities are reporting that cash flow for aid disbursement has doubled and student refunds for out-of pocket expenses have nearly quadrupled. Among other benefits listed below, the new system has simplified the application system and the competition between the two programs has lowered interest and default rates.

	Direct Lending	**FFELP**
Availability of Capital	1. Funds are guaranteed to be available from the U.S. Treasury; no redlining of schools or students	1. Funding not guaranteed; dependent upon credit markets and corporate strategic decisions; can refuse to lend to schools and/or students
	Simplicity of Processing	
Front-end Service	1. Uses COD - equivalent of Pell with a promissory note 2. **Controlled by the Financial Aid Office** 3. **One Master Promissory Note**	1. Multiple processes for multiple lenders 2. Controlled by multiple partners **(internal & external)** 3. Each lender has own Master Promissory Note
Back-end Servicing	1. **Single point of service for life of the loan**	1. **Multiple Loan Servicing Agents** and loans may be sold several times over life of loan
Loan Consolidation	1. Once in grace period or in repayment, can consolidate loans 2. If consolidating Perkins with DL, **will not lose** Perkins grace period 3. Because DL loans are not sold, promised benefits are guaranteed 4. If consolidating Direct Loans in the DL Consolidation, will not lose the 1.5% origination fee reduction received at disbursement 5. DL Consolidation repayment option **includes income contingent repayment with any remaining balance forgiven after 25 years**	1. Once in grace period or in repayment, can consolidate loans 2. If consolidating Perkins with FFELP, **will lose** Perkins grace period 3. When loans are sold, as they often are, promised benefits are typically lost 4. Few lenders continue to offer consolidation loans **5.** No income contingent repayment option in FFELP consolidation

Repayment Incentives	1. 0.25% Interest rate reduction for EFT payments 2. 12 on-time payments needed to keep up-front rebate of 1.5% 3. Because loans are not sold, promised benefits are never lost 4. Interest is capitalized when borrower changes status	1. Some lenders offer 0.25% Interest rate reduction for EFT payments 2. Incentives for on-time payments typically require 36 to 48 months of on-time payments. Recent reports state that as few as 1% of borrowers ultimately qualify 3. When loans are sold, as they often are, promised benefits are typically lost. 4. Interest is typically capitalized as frequently as allowed under law and regulations
Repayment Plans	1. Standard, Graduated, Extended, Income-Based and **Income-contingent repayment plans** 2. **Income-contingent plan confirmed with IRS and has a 25-year maximum w/balance forgiven – better than IBR for some borrowers** 3. **May change repayment plans at any time without penalty**	1. Standard, Graduated, Extended, and Income-Based Repayment options 2. Not applicable 3. **Ability to change repayment plans may be restricted to annually or student may lose benefits**
Return of Funds	1. **Common Origination and Disbursement System managed by ED for Pell, ACG, SMART and Direct Loans allows easy return of funds** 2. Ineligible funds for a student **may be used to pay other students**	1. **Written correspondence explaining return of funds** for each student to each lender. Lenders will have different procedures 2. Ineligible funds or return of Title IV funds due to withdrawal for a student **must be returned to various lenders using a variety of methods and not reused to pay other students**
Loan Fees Interest	1. 1% net origination fee after 1.5% up-front rebate 2. **No guarantee fee**	1. 0-1% origination fee – depending on lender 2. 0-1% for guarantee fee
Rates	1. **7.9%** interest on G-PLUS and PLUS	1. **8.5%** interest on G-PLUS and PLUS
American Taxpayers	1. **$.77 per $100 borrowed*** **per President's FY 2009 budget*	1. **$5.25 per $100 borrowed*** **per President's FY 2009 budget*