

# **New! Federal Direct Loans Coming to PLU in 2010-11**

## **1. Why is PLU switching from the Federal Stafford Loan program to the Federal Direct Loan Program?**

Based on the instability in the Federal Family Education Loan Program (FFELP), PLU came to the conclusion that it is in the best interest of our students to switch to the William D. Ford Federal Direct Loan program.

Instability in the FFEL program came about due to the credit crunch and ongoing recession, as lenders faced a lack of capital to make student loans. This forced lenders to sell their Stafford Loans back to the federal government so they had the revolving capital to continue making education loans. Additionally, recent federal legislation reduced the subsidies the federal government paid to lenders to make federal student loans. The reduced subsidy forced lenders to reduce customer service and eliminate programs that made FFELP loans previously less expensive than Direct Loans. These cuts pushed some lenders to discontinue participation in the FFELP loan program altogether, forcing their borrowers to seek loans from a second lender (which would require two payments when the loan entered repayment) Since September, three major lenders who provided 40% of the FFELP loan volume at PLU terminated their participation in the FFEL program.

## **2. What happens if I borrowed a Stafford Loan previously, but now must borrow a Direct Loan?**

Everyone borrowing the Federal Direct Loan for the first time will have to sign a new promissory note on the U.S. Department of Education's website, as well as a new Entrance Interview. You will have to complete these steps only once. Once completed, your loan will disburse onto your student account in a more-stream-line manner than your loans did in previous years under the Stafford Loan program.

## **3. Are the terms and condition of the Direct Loans the same as the Federal Stafford and PLUS Loans?**

The grace period, deferments, repayment periods, and alternate repayment plans are identical with FFELP loans. While the interest rate on the Stafford Loan and Direct Loan are identical, the interest rate on the Federal Direct PLUS loan is 7.9% compared to the 8.5% fixed rate on the FFELP PLUS loan. The Direct Loan also offers you a rebate, which reduces the fee deducted from the loan from 1% in the Stafford Loan program, to .5% in Direct Loan program. Note that this rebate is added back to your loan principal if you fail to make your first 12 monthly payments on time when you enter repayment.

## **4. If I have both the Federal Stafford and Direct Loans, will I have to make two payments when I enter repayment?**

You have the option (and are generally encouraged ) to consolidate your Federal Stafford and Direct Loans into a Federal Direct Consolidation loan. If you choose not to consolidate your loans, you would have two payments, just as you would if you borrowed a Stafford Loan from two different lenders. Since most lenders are already selling their Stafford loans to the U.S.

Department of Education, it is likely that your loan will be serviced by the same company servicing Direct Loans, potentially resulting in a single payment anyway.

**5. Do I have the option to stay with my current lender and borrow a Federal Stafford Loan?**

No. When PLU made the decision to participate in the Federal Direct Loan program, our systems and agreement with the U.S. Department of Education were switched over to process Federal Direct Loans only.

**6. Who would I talk to if I have questions or problems with my Direct Loan?**

Your first contact would remain with the PLU Financial Aid Office and Student Services Center. We should be able to resolve most "in-house" issues. Once you go into repayment, most of your communication will be with the loan servicing company assigned to your loan by the U.S. Department of Education. You can track your loans on the National Student Loan Data System at [www.nslds.ed.gov](http://www.nslds.ed.gov). For help in resolving loan issues, contact the federal student loan ombudsman at <http://ombudsman.ed.gov/>