

Early Repayment Consolidation

- The Higher Education Act permits a FFELP borrower to consolidate his loans that are in a grace or repayment status, that is, loans in "school" status may not be consolidated in the FFELP.
- However, the law does allow a student to elect early entry to repayment thus qualifying for a FFELP consolidation. Although such an election results in the borrower foregoing a grace period, this seems to be cost beneficial for borrowers given the opportunity to obtain a low fixed rate Consolidation before the July interest rate reset.

Steps	Regulation and Statute Citations	Notes
1. Borrower requests early repayment	<p>34CFR 682.209(a)(5): "For a Stafford loan, the repayment period begins prior to the end of the grace period if the borrower requests in writing and is granted a repayment schedule that so provides. In this event, a borrower waives the remainder of the grace period."</p> <p>Higher Education Act Sec. 428(b)(7)(A)(ii) [20 USC 1078(b)(7)(A)(ii)]</p> <p>: "...the repayment period shall exclude any period of authorized deferment or forbearance and shall begin....on an earlier date if the borrower requests and is granted a repayment schedule that provides for repayment to commence at an earlier date."</p>	<ul style="list-style-type: none"> - Request must be made in writing: by email, fax or via online form. - Borrowers should keep a copy of this for their records. - By making a request to accelerate into repayment, a borrower forfeits the entire grace period. When he comes out of school, he will not have a six-month grace period, and he will lose the interest subsidy on Subsidized Stafford Loans that the federal government pays during grace. - Borrowers who have forfeited their grace period could request a forbearance after they leave school to give themselves six months of payment relief to transition from school to career, get up on their feet, etc. In this event, they would be responsible for the interest that accrues on their loans during the forbearance period.
2. Borrower requests deferment on loans	<p>34 CFR 682.210 (c) <i>In-school deferment. (1)</i> Except as provided in paragraph (c)(5) of this section, the lender processes a deferment for full-time study or halftime study at a school, when—</p> <p>(i) The borrower submits a request and supporting documentation for a deferment;</p> <p>(ii) The lender receives information from the borrower's school about the borrower's eligibility in connection with a new loan; or</p> <p>(iii) The lender receives student status information from the borrower's school, either directly or indirectly, indicating that the borrower's enrollment status supports eligibility for a deferment</p> <p>34 CFR 682.210 (s)(2) <i>In-school deferment.</i> An eligible borrower is entitled to a deferment based on the borrower's at least halftime study in accordance with the rules prescribed in §682.210(c), except that the borrower is not required to obtain a Stafford or SLS loan for the period of enrollment covered by the deferment. Higher Education Act Sec. 428(b)(1)(M) [20 USC 1078(b)(1)(M)] provides that periodic installments of principal need not be paid, but interest shall accrue and be paid by the Secretary, during any period—</p>	<ul style="list-style-type: none"> - This request should be made at the same time that the borrower requests early repayment. - Borrowers should keep a copy of this for their records.

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	<p>(i) during which the borrower—</p> <p>(I) is pursuing at least a half-time course of study as determined by an eligible institution, except that no borrower, notwithstanding the provisions of the promissory note, shall be required to borrow an additional loan under this title in order to be eligible to receive a deferment under this clause...</p>	
3. Borrower consolidates loans	<p>34 CFR 682.201(c)(1)</p> <p>“Consolidation program borrower. An individual is eligible to receive a Consolidation loan if the individual –</p> <p>(i) On the loans being consolidated –</p> <p>(A) Is, at the time of application for a Consolidation loan –</p> <p>(1) In a grace period preceding repayment;</p> <p>(2) In repayment status;</p> <p>(3) In a default status and has either made satisfactory repayment arrangements as defined in applicable program regulations or has agreed to repay the consolidation loan under the income-sensitive repayment plan...”</p> <p>Higher Education Act Sec. 428C(a)(3)(A)(ii)(II) [20 USC 1078-3(a)(3)(A)(ii)(II)]</p> <p>For the purpose of this section, the term “eligible borrower” means a borrower who –</p> <p>(ii) at the time of application for a consolidation loan –</p> <p>(I) is in repayment status;</p> <p>(II) is in a grace period preceding repayment;</p> <p>(III) is a defaulted borrower who has made arrangements to repay the obligation on the defaulted loans satisfactory to the holder of the defaulted loans.</p> <p>Federal Consolidation Loan Application/Note. Certification item 34.C. states:</p> <p>"I declare under penalty of perjury that the following is true and correct: ...C. The loans I am requesting to consolidate are in grace or in repayment status (including loans in deferment or forbearance)."</p>	<ul style="list-style-type: none"> - Borrower's loans are in repayment and deferred. - For applications received before July 1, the borrower's Stafford loans will be consolidated using the rate of 2.875 percent (T-bill rate 1.07 percent plus the deferment margin of 1.7 percent = 2.77 percent, adjusted up to nearest 0.125 percent). (This assumes that the Stafford loans were originated after July 1, 1998). - All outstanding accrued interest will be capitalized at the time the consolidation loan is disbursed. - Borrowers will no longer be eligible for potential borrower benefits offered on the unconsolidated Stafford loans. However, borrowers will be eligible for different benefits on their consolidation loans.
4. Borrower's consolidation loan is deferred		<ul style="list-style-type: none"> - This again allows borrower to suspend making payments as long as borrower is enrolled at least half-time.

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