The Benefits of Direct Lending

Provided by the National Direct Student Loan Coalition

There are many reasons that a school chooses the Federal Direct Student Loan Program (DL) over the Federal Family Education Program (FFELP). These reasons center around the over-all simplicity of DL and the ability to provide superior one-stop-shopping service to students, as well as 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.

Lending Simplified

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.**

Below is a chart outlining differences and similarities between DL and FFELP

Less Cost to Schools and Students

	FFELP	Direct Lending
Loans Offered	• Stafford Subsidized, Stafford Unsubsidized and PLUS	• Stafford Subsidized, Stafford Unsubsidized and PLUS
Front-end Customer Service	• Controlled by multiple partners **(internal & external)** • Each lender has own Master Promissory Note	• **Controlled by the Financial Aid Office** • **One Master Promissory Note**
Back-end Servicing	• **Multiple Loan Servicing Agents** and loans may be sold several times over life of loan	• **Single point of service for life of the loan**
Loan Consolidation	• Once in grace period or in repayment can consolidate loans • If consolidate Perkins with FFELP, **will** lose **Perkins** grace period • When loans are sold, as they often are, promised benefits are typically lost • **No income contingent repayment option in FFELP consolidation**	• Once in grace period or in repayment can consolidate loans • If consolidate Perkins with DL, **will not** lose **Perkins** grace period • Because DL loans are not sold, promised benefits are not lost because of a sale to a new lender • If consolidate Direct Loans in the DL Consolidation , will not lose the 1.5% origination fee reduction received at disbursement DL Consolidation repayment option **includes income contingent repayment with any remaining balance forgiven after 25 years**

(Benefits of Direct Lending Continued…)

Less Cost to Taxpayers

Repayment Incentives	• Some lenders offer 0.25% Interest rate reduction for EFT payments • Different incentives depending on lender for on-time payments. Recent reports state that as few as 1% of borrowers ultimately qualify • When loans are sold, as they often are, promised benefits are typically lost. • Interest is capitalized when borrower changes	• 0.25% Interest rate reduction for EFT payments • Because loans are not sold, promised benefits are never lost • Interest is capitalized when borrower changes status
Repayment Plans	• Standard, Graduated, Extended, and Income-Based Repayment options • **Ability to change repayment plans may be restricted or student may lose some benefits**	• Standard, Graduated, Extended, Income-Based and **Income-contingent repayment plans** • **Income-contingent plan confirmed with IRS and has a 25-year maximum w/balance forgiven – better than IBR for some borrowers** • **May change repayment plans at any time without penalty**
Return of Funds	• **Written correspondence explaining return of funds** for each student to each lender. Lenders will have different procedures. • 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**	• **Common Origination and Disbursement System managed by ED for Pell, ACG, SMART and Direct Loans allows easy return of funds** • Ineligible funds for a student **may be used to pay other students**
Loan Fees	• **0-1% origination fee – depending on lender** • **0-1% for guarantee fee - determined by guarantee agency**	• **Net 1/2% up front origination fee assessed upon disbursement*** • **No guarantee fee** **If 12 on-time payments are not made once in repayment, an additional 1.5% is assessed.*
American Taxpayers	• **$5.25 per $100 borrowed*** **per President's FY 2009 budget*	• **$.77 per $100 borrowed*** **per President's FY 2009 budget*