



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION

June 23, 2006 THE ASSISTANT SECRETARY

DCL ID: FP-06-11
GEN-06-12

Subject: Consolidation Loans made under the Federal Family Education Loan (FFEL) and William D. Ford Federal Direct Programs.

Summary: This letter discusses changes made to the FFEL and Direct Consolidation Loan Programs by the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006.

Reference: Section 428C of the Higher Education Act (HEA)

Dear Colleague:

On June 15, President Bush signed Pub.L. 109-234, the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006 (the Appropriations Act). This Appropriations Act made two changes to the Higher Education Act of 1965, as amended (HEA) affecting loan consolidation in the Federal Family Education Loan (FFEL) Program and the Federal Direct Loan Program:

Repeal of the Single Holder Rule

Effective for any Federal Consolidation Loan made based on an application received by an eligible lender on or after June 15, 2006, the single holder rule formerly found in section 428C(b)(1)(A)(i) of the HEA no longer applies. The repeal of the single holder rule now means that an eligible borrower may consolidate loans with any eligible consolidation lender in the FFEL Program, even if the borrower's loans are held by only one FFEL holder.

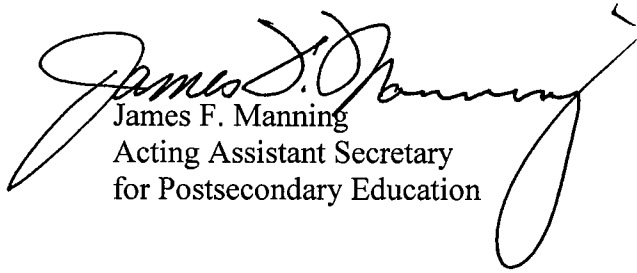
Consolidation of Defaulted FFEL Loans into the Direct Loan Program

The Appropriations Act repealed changes made to section 428C(b)(5) of the HEA, by the Higher Education Reconciliation Act of 2005 (Pub. L. 109-171) earlier this year. These changes had been scheduled to take effect on July 1, 2006 and would have limited the circumstances under which a FFEL borrower without any Direct Loans may consolidate his or her FFEL loans into a Direct Consolidation Loan. The Appropriations Act eliminated these restrictions and restored the statutory provision that was in place prior to the enactment of Pub.L. 109-171. Thus, a FFEL Stafford or PLUS loan borrower continues to be eligible to apply for a Direct Consolidation Loan if the borrower is unable to obtain a FFEL Consolidation Loan, or is unable to obtain one with income-sensitive repayment terms acceptable to the borrower. We note, however, that the changes made in

Pub.L. 109-171 that restricts the ability of FFEL Consolidation Loan borrowers to consolidate those loans into a Direct Consolidation Loan are not affected by the Appropriations Act.

We thank you for your cooperation in complying with this guidance. If you have any questions concerning these changes, please contact Pamela Moran by e-mail at Pamela.Moran@ed.gov or by phone at (202) 502-7732.

Sincerely,



James F. Manning
Acting Assistant Secretary
for Postsecondary Education