

Going Direct to the Source

Recently NJC and all of the schools in the Community College System of Colorado implemented a new loan program which involves the processing of student loans directly through the Federal Government. This change is effective as of the Spring 2009 Semester. This decision was made to answer the concerns that many students and parents had with their ability to obtain funding to cover educational costs. In 2008 many lenders abruptly stopped their participation in the Stafford Loan Program. These decisions were made by lenders as a result of downturns in the credit markets and cuts in government subsidies, making participation in the program unsustainable. Regardless of the reason for a lender leaving the Stafford Loan program, their decisions often left many students/parents scrambling to secure funds from new sources. By participating in the Direct Loan Program these issues are eliminated. Funds will come directly from the U.S. treasury.

What does this mean to you? Below are some answers that will help students/parents understand how this change affects them.

I have used XYZ bank for my 2008-09 Stafford/PLUS loans. How will this change affect me?

For most students/parents this change does not have any immediate affect on them. If you already have a Stafford/PLUS loan accepted and certified for the fall or fall/spring terms; there is nothing for you to do for the fall or spring term. Those loan proceeds will disburse as scheduled. Any requested loan increases will stay with the FFEL program used for fall or fall/spring.

What is the Direct Loan Program and how does it differ from what NJC is already doing?

There are two ways in which the Stafford/PLUS Loan program is administered. One is through the Federal Family Educational Loan program (FFEL) and the other is Direct Lending. NJC and other community colleges have participated in the FFEL program whereby funds were obtained from banks and lenders after a guarantee agency approved the loan certification from the school. With the recent turmoil in the U.S. markets some lenders have backed completely out of the FFEL program or decided to limit lending practices to Colorado Community Colleges. This has added some complexity for students/parents forcing them to borrow from multiple lenders during their time at NJC. In the Direct Lending model NJC would determine student eligibility and the U.S. Department of Education obtains funds from the U.S. Treasury. This process involves fewer participants and provides a single point of contact for the school and the student/parents.

Why did NJC decide to enter the Direct Lending Program?

The abrupt changes in lender participation in the Stafford/PLUS Loan Program proved to create an unacceptable disruption in the service we provide to students/parents. Because of this Colorado Community College Administrators decided to move to the Direct Lending Program. The Direct Loan program is the most stable source of Stafford/PLUS Loan funding available because funds are provided directly from the U.S. Treasury. Internally the processes used to deliver Stafford/PLUS Loan funds from Direct Lending mirror those

already in use to deliver Pell grants and other federal funds. While the transition will require some work, in the long run, the benefits of this change will be seen by our students.

I was not enrolled fall 2008 or I do not want a Stafford/PLUS loan for fall 2008. How will this change affect me?

You will be under the Direct Loan program and information with instructions is forthcoming early November. Full implementation will begin 2009-10 academic year and all Stafford/PLUS loans will be processed through the Direct Loan program.

What are the main benefits of switching to the Direct Loan Program?

1. A guaranteed source of funding for student/parent loans.
2. The option of an income-contingent repayment plan or an income-based repayment plan when a student enters repayment. This means a student has the option of ensuring that the loan repayment amount will always be affordable based on what the borrower's income will allow.
3. Students in the Direct Loan Program who enter into public service jobs can have any remaining balance on the loans forgiven after 10 years of repayment while in public service work. (While this option does not exist in the FFEL Program, students who borrowed in that program can consolidate their loans into the Direct Loan Program in order to take advantage of this forgiveness.)
4. The PLUS loan for parents through the Direct Loan uses a more liberal credit assessment. More parents may qualify for these programs under the Direct Loan Program than in the FFEL Program.
5. The interest rate for the parent loan is 7.9 percent in the Direct Loan Program compared to 8.5 percent in the FFEL Program.
6. Most lenders offer benefits during repayment after a student makes payments for two to four years. Very few students end up receiving those benefits. In the Direct Loan Program, students earn benefits after only one year.
7. Should a student make payments late under the Direct Loan Program, the late fees charged are less than the late fees charged by lenders in the FFEL Program.

Are other aid programs affected by the issues affecting student loans?

No, federal and state grant programs aren't directly affected by what is occurring in the U.S. markets. Funding for federal programs is appropriated by congress while funding for state funds are appropriated by the state legislature.