

## **The Federal Budget Control Act of 2011 has provisions impacting financial aid effective 7/1/12:**

The subsidy component in the Federal Subsidized Stafford/Direct loan is eliminated for *graduate* students for loans first disbursed on or after 7/1/12. Any Federal Subsidized Stafford/Direct Loans first disbursed prior to July 1, 2012, will retain their interest subsidy. This Act applies only to new *graduate* loans issued after July 1, 2012.

Impact for you: **The total amount graduate students may borrow under the Federal Stafford Loan program remains at \$33,000/9 months or \$44,000/12 months; however, all monies will be unsubsidized (applies to loan periods starting 7/12 or later).**

The Budget Control Act also removes the authority of the Department of Education to offer any repayment incentives to Direct Loan borrowers to encourage on-time repayment of loans, including any reduction in the interest rate or origination fee, effective for loans first disbursed on or after July 1, 2012.

Impact on you: **As a result of this change, the up-front interest rebate that has been provided to Direct Loan borrowers at the time of their loan disbursement will no longer be offered on any Federal Direct Loan with a first disbursement date that is on or after July 1, 2012.**

- Unsubsidized loans will still have the 1% origination fee; however, without the ½ percent rebate. Origination fees each quarter will be \$110 instead of \$55.
- Graduate PLUS loans will still have the 4% origination fee; however, without the 1.5% rebate. For example on an award amount of \$3165, the origination fee would be \$126 instead of \$79.
- The law continues to authorize the Department of Education to offer interest rate reductions to Direct Loan borrowers who agree to have electronic payments automatically debited from a bank account.

## **Information about the new Pay-As-You-Earn proposal:**

Help Americans Manage Student Loan Debt by Capping Monthly Payments to What They Can Afford. Allow borrowers to cap their student loan payments at 10% of discretionary income. In the 2010 State of the Union, the President proposed – and Congress quickly enacted – an improved income-based repayment (IBR) plan, which allows student loan borrowers to cap their monthly payments at 15% of their discretionary income. Beginning July 1, 2014, the IBR plan is scheduled to reduce that limit from 15% to 10% of discretionary income.

On 10/25/11 the President announced that his Administration is putting forth a new “Pay As You Earn” proposal to make sure these same important benefits are made available to some borrowers as soon as 2012. The Administration estimates that this cap will reduce monthly payments for more than 1.6 million student borrowers.

Details of the revised Pay-As-You-Earn plan, including borrower and loan eligibility, will not be finalized until the proposal goes through the negotiated-rulemaking process. To view the Administration’s fact sheet about this initiative go to:

<http://studentaid.ed.gov/PORTALSWebApp/students/english/PayAsYouEarn.jsp>

## **Special Direct Consolidation Loans:**

The U.S. Department of Education (the Department) will offer Special Direct Consolidation Loans to eligible borrowers, beginning in January 2012. This is a short-term consolidation opportunity, ending June 30, 2012, for borrowers with:

- at least one student loan held by the Department (a Direct Loan or a Federal Family Education Loan [FFEL] owned by the Department and serviced by one of the Department’s servicers); and
- at least one commercially-held FFEL loan (a FFEL loan that is owned by a FFEL lender and serviced either by that lender or by a servicer contracted by that lender).

Special Direct Consolidation Loans are intended to help borrowers manage their debt by ensuring all of their federal loans are serviced by the same entity, resulting in one bill and one payment (borrowers repay loans to a loan servicer). Borrowers will also receive an interest rate reduction on Special Direct Consolidation Loans as a repayment incentive.

Details are available at: <http://studentaid.ed.gov/PORTALSWebApp/students/english/specialconsolidation.jsp>

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