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FFELP Highlights of the Deficit Reduction Act



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Authorization of FFELP

- FFELP authorized:
 - Sept. 30, 2004 - new Stafford and PLUS borrowers and consolidation loan borrowers
 - Sept. 30, 2008 - prior borrowers continuing or completing program of study

Change:

- FFELP authorized:
 - Sept. 30, 2012 - new Stafford and PLUS borrowers and consolidation loan borrowers
 - Sept. 30, 2016 - prior borrowers




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Effective date

- changes take effect July 1, 2006 unless otherwise specified



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Loan limits (subsidized)

- first-year annual limit is \$2,625
- second-year annual limit is \$3,500

Change:

- increases first-year limit to \$3,500
- increases second-year limit to \$4,500

Effective July 1, 2007



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Loan limits (unsubsidized)

- annual limit for graduate/professional student is \$10,000

Change:

- increases limit to \$12,000

Effective July 1, 2007



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Loan limits (unsubsidized)

- annual limit of \$5,000 for student taking coursework to qualify for:
 - graduate/professional program
 - teacher certification/credential

Change:

- increases limit to \$7,000

Effective July 1, 2007



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PLUS for graduate/professional students

- no similar provision

Change:

- allows graduate/professional students to borrow PLUS loans



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Interest rate (Stafford)

- loans made on/after July 1, 2006 will have 6.8% fixed rate

Change:

- no change



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Interest rate (PLUS)

- loans made on/after July 1, 2006 will have 7.9% fixed rate

Change:



- changes interest rate from 7.9% to 8.5%



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Questions



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Origination fees

- lender must pay 3% origination fee
- lender may pass fee on to borrower

Change:

- reduces origination fee to:
 - 2.0% for loans made on/after July 1, 2006
 - 1.5% for loans made on/after July 1, 2007
 - 1.0% for loans made on/after July 1, 2008
 - 0.5% for loans made on/after July 1, 2009
 - 0.0% for loans made on/after July 1, 2010



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Federal default fee

- guarantor is permitted to charge a fee of up to 1%

Change:

- for loans made on/after July 1, 2006, requires guarantor to:
 - deposit 1% into its Federal Fund
 - collect 1% of the principal amount of the loan or by payment from other non-federal sources



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Borrower eligibility

- no similar provision

Change:

- borrowers convicted of fraudulently obtaining Title IV funds must repay such funds to be eligible to receive Title IV assistance



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Student eligibility

- student convicted of possession or sale of a controlled substance at any time is not eligible to receive FSA funds

Change:

- student convicted of drug possession or sale of a controlled substance *during a period of enrollment that the student was receiving FSA funds* is not eligible to receive FSA funds



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Student eligibility

- no similar provision

Change:

- expands the definition of "independent" students to include individuals currently serving on active duty in the Armed Forces for purposes other than training



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Disbursement exemptions

- multiple and delayed disbursement exemptions expired Sept. 30, 2002

Change:

- reinstates exemptions for schools with cohort default rates below 10%

Effective: date of enactment



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Study abroad disbursement

- upon student's request, lender may disburse loan funds directly to student in a study abroad program

Change:

- upon student's request, loan funds disbursed directly to student
 - after lender or guarantor verifies enrollment



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Foreign school disbursement

- upon request, loan may be disbursed directly to student enrolled in foreign school after guarantor verifies enrollment
 - loan not subject to multiple disbursement rules

Change:

- loan funds disbursed directly to student attending foreign school after lender or guarantor verifies enrollment
 - upon request by foreign school
 - must be in multiple disbursements



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Disbursement using escrow agent

- when using escrow agent to disburse, lenders may not send funds to agent more than 21 days prior to date of disbursement

Change:

- reduces time frame to 10 days



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Disbursement using escrow agent

- lender may not bill ED for interest on loan earlier than:
 - 10 days before first disbursement of loan, if disbursed by check, or
 - 3 days before first disbursement of loan, if disbursed by EFT

Change:



- adds stipulation that lender may not bill for interest earlier than 3 days before first disbursement if loan is disbursed through an escrow agent



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Institutional refund

- school must return Title IV funds within 30 days of withdrawal

Change:

- changes 30 days to 45 days



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Late/post withdrawal disbursement

- school must comply with ED disbursement regulations if student drops below half-time status before disbursing loan funds

Change:

- after determining the student's eligibility for a late or post withdrawal disbursement, the school must:
 - contact borrower to confirm loan funds are still required
 - explain borrower's obligation to repay
 - document such contact and final determination




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Stafford loan repayment start date

- "...the day after 6 months after the student ceases to carry at least one-half the normal full-time academic workload (as determined by the institution); or
- on an earlier date if the borrower requests and is granted a repayment schedule that provides for repayment to commence at an earlier date."




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Stafford loan repayment start date

Change:

- 2nd clause removed, making definition:
 - “the day after 6 months after the student ceases to carry at least one-half the normal full-time academic workload (as determined by the institution)”



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Repeal of in-school consolidation

- borrower may request at any time that loan be put into repayment

Change:

- eliminates:
 - option of requesting early repayment
 - “in-school” consolidation



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Spousal consolidation

- spouses may consolidate loans together

Change:

- eliminates spousal consolidation




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Consolidation

- borrower may obtain consolidation loan from DL program if unable to obtain:
 - consolidation loan, or
 - consolidation loan with income sensitive repayment terms acceptable to borrower




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Consolidation

Change:

- ED required to offer consolidation loan to borrower if:
 - denied consolidation loan by lender
 - denied consolidation loan with income-sensitive repayment
- appears to require ED to offer consolidation loan to borrowers in default



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Consolidation

- exceptions exist that allow borrower to receive subsequent consolidation loan or add loans to existing consolidation loan

Change:

- additional exception:
 - may obtain subsequent consolidation loan under Direct Loan program:
 - to obtain income-contingent repayment plan
 - if loan submitted to guarantor for default aversion



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Military deferment

- borrowers prior to July 1, 1993 eligible for military deferment based on active duty

Change:

- military deferment:
 - loans first disbursed on or after July 1, 2001
 - up to 3 years
 - borrowers serving on active duty or qualifying National Guard duty during:
 - war or other military operation
 - national emergency




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Military deferment

- definitions established by *HEROES Act*:
 - military operation
 - national emergency
 - serving on active duty
 - qualifying National Guard duty



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Military deferment

- “National Emergency” definition
- *HEROES Act* definition – national emergency declared by President of the United States

Change:

- national emergencies declared by President by reason of terrorist attacks

Effective for loans first disbursed on or after July 1, 2001



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Forbearance agreements

- some forbearances require borrower signature

Change:

- verbal request for these forbearances:
 - medical or dental internship/residency
 - national service
 - debt to monthly income exceeds 20%
- lender will document forbearance by:
 - confirming agreement by notice to borrower, and
 - recording terms in borrower's file



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Teacher loan forgiveness

- certain teachers in math, science, and special ed may qualify for \$17,500 in forgiveness if:
 - “new borrower” between Oct. 1, 1998 and June 30, 2007

Change:

- eliminates end date, making \$17,500 permanent



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Teacher loan forgiveness

- no similar provision

Change:

- extends forgiveness to private school teachers exempt from state certification requirements
- teacher must pass competency tests:
 - recognized by 5 or more states for highly-qualified teacher requirements
 - teachers must equal or exceed average passing score of the 5 states



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Additional discharge program

- borrowers may qualify to have loans discharged under certain circumstances

Change:

- adds discharge program for loans falsely certified as a result of identity theft




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Special allowance

- special allowance limitations:
 - PLUS loans first disbursed after Jan. 1, 2000
 - consolidation loans where application received on or after Jan. 1, 2000



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Special allowance

Change:

- removes special allowance limitations on loans noted previously
- substitutes “Recapture of Excess Interest”
 - lender required to credit excess interest to ED
 - quarters where applicable interest rate exceeds special allowance support level
 - lender must reconcile excess interest at least annually
- dual triggering events

Effective April 1, 2006



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Insurance percentage

- insurance rate 98% on defaulted loans

Change:

- insurance rate lowered to 97%

Effective for loans first disbursed on or after July 1, 2006



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Default rehabilitation

- requires 12 consecutive, on-time monthly payments

Change:

- requires 9 payments within 20 days of due date during 10 consecutive months

Effective: date of enactment



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College access initiative

- no similar provision

Change:

- for their designated states, requires guarantors to publicize:
 - postsecondary opportunity information sources
 - information on college planning, preparation, and payment
- guarantors not required to duplicate existing efforts



Effective: 270 days after enactment



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Questions



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More information

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Additional Resources

- *Newsbriefs*
– www.nslp.org/newsbref.htm
- handouts from today's presentation
– www.nslp.org/vnews/display.v/ART/41b4a2a811203



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