Federal Direct Stafford Loan Changes for 2012-13

The Budget Control Act (BCA) of 2011 was signed into law on August 2, 2011 and the Consolidated Appropriations Act, 2012 (Public Law 112-74) was signed into law by President Obama on December 23, 2011. These Acts make three changes to the Federal Direct Stafford Loan Program.

1. Undergraduate Student Loan Changes

The Consolidated Appropriations Act, 2012 will impact Federal Direct Subsidized loans. The **interest subsidy** provided on Federal Direct Subsidized loans during the **six month grace period** when students are no longer enrolled on at least a half-time basis will be **temporarily eliminated**. This change goes into effect for new Direct Subsidized Loans for which the **first disbursement** is made **on or after July 1, 2012** and **before July 1, 2014.**

2. Loss of Subsidized Loan Eligibility for Graduate and Professional Students

*Effective for loans made for periods of enrollment (loan periods) beginning on or after **July 1, 2012**,* graduate and professional students are no longer eligible to receive Federal Direct Subsidized Loans. The terms and conditions of Direct Subsidized Loans received by any student for loan periods beginning **before** July 1, 2012, for either graduate or undergraduate study, are not affected by this change.

The annual loan limit for graduate and professional students remains unchanged at $20,500 ($47,167 for certain health professions students), but this amount **will now be limited to Direct Unsubsidized Loans.** The aggregate loan limit for graduate and professional students remains unchanged at $138,500 ($224,000 for certain health professions students), not more than $65,500 of which may be in subsidized loans.

The elimination of subsidized loan eligibility for graduate and professional students **does not affect undergraduate student borrowers**, who remain eligible to receive Direct Subsidized Loans. The changes are illustrated on the chart below:

Annual Loan Limits for Graduate/Professional Students				
	For loan periods beginning **before** July 1, 2012		For loan periods beginning **on or after** July 1, 2012	
	Subsidized Loan Maximum	Unsubsidized Loan Maximum	Subsidized Loan Maximum	Unsubsidized Loan Maximum
All Graduate and Professional Students	$8,500	$20,500, less any subsidized amount received	$0	$20,500
Certain Health Professions Students	$8,500	$47,167, less any subsidized amount received	$0	$47,167

3. Termination of Direct Loan Borrower Repayment Incentives

This provision affects all discount fee rebates for both undergraduate and graduate level students.

The Budget Control Act terminates 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***. 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** Direct Loan Program loan with a first disbursement date that is **on or after July 1, 2012** (this includes the Direct PLUS / Grad PLUS Program). The law continues to authorize the Department to offer interest rate reductions to Direct Loan borrowers who agree to have payments automatically electronically debited from a bank account.

An example of the impact on a Direct Stafford Loan is as follows:

> For 2011-12 a student borrowing 1,750.00 actually received a disbursement (after fees and rebate) of $1,742.00. For 2012-13 a student borrowing $1,750.00 (after fees) will receive a disbursement of $1,733.00.

An example of the impact on a Direct PLUS Loan is as follows:

> For 2011-12 a Parent or graduate student borrowing a PLUS loan of $1,800.00 resulted in a net disbursement (after fees and rebate) of $1,755.00. For 2012-13 borrowing a PLUS loan of $1,800.00 will result in a net disbursement (after fees) of $1,728.00.

The changes are also illustrated on the chart below:

Change in Up-front Interest Rate Rebate								
	Loans disbursed before July 1, 2012				**Loans disbursed after July 1, 2012**			
	Origination fee	Loan Rebate	Total Loan Fee	Total Loan Disbursement	Origination Fee	Loan Rebate	Total Loan Fee	Total Loan Disbursement
Direct Subsidized/ Unsubsidized Loans	1%	.05%	.05%		1%	0%	1%	
Ex: $1,750.00	$17	$9	$8	**$1,742.00**	$17	$0	$17	**$1,733.00**
Direct PLUS Loans	4%	1.5%	2.5%		4%	0%	4%	
Ex: $1,800.00	$72	$27	$45	**$1,755.00**	$72	$0	$72	**$1,728.00**