Basic Components of Direct Loans

Chapter 2

This chapter describes the four types of Direct Loans: Direct Subsidized Loans and Direct Unsubsidized Loans, which are for students; Direct PLUS Loans, which are for parents; and Direct Consolidation Loans, which are for students or parents.

For each Direct Loan type, this chapter describes the basic components, including:

- loan limits and interest rates;
- loan fees, late charges, collection charges, and prepayment;
- grace periods, deferments, and forbearance;
- loan repayment; and
- loan discharge.

Loans for Students: Direct Subsidized Loans and Direct Unsubsidized Loans

In general, Direct Subsidized Loans and Direct Unsubsidized Loans are for postsecondary school students who are enrolled at least half time in eligible programs of study. The terms and conditions governing Direct Subsidized Loans and Direct Unsubsidized Loans are substantially the same, but there are important differences as well. This section reviews the basic components of these loans, noting the similarities and differences.

Take a Look

See Chapter 5 for details about Direct Loan Program eligibility requirements for students.

Laws & Regulations

- HEA, Title IV, Parts B and D
- 34 CFR 685.203

Loan Limits

The Higher Education Act of 1965, as amended (HEA), and the Direct Loan Program regulations specify how much students may borrow in Direct Subsidized Loans and Direct Unsubsidized Loans. This includes the annual and aggregate maximum loan amounts, that is, the highest amount any student may borrow in an academic year and in total.

Annual Loan Limits

The following chart shows the maximum annual loan limits for Direct Subsidized Loans and Direct Unsubsidized Loans.

Direct Subsidized Loans and Direct Unsubsidized Loans Combined Annual Loan Limits

1st year undergraduate

- dependent student—$2,625[1]
- independent student—$6,625[2]

2nd year undergraduate

- dependent student—$3,500[1]
- independent student—$7,500[3]

3rd, 4th, and 5th year undergraduate

- dependent student—$5,500[1/6]
- independent student—$10,500[4/6]

Graduate/professional

- all students*—$18,500[5/6]

Footnotes

1. For dependent students, the annual loan limit is also the maximum subsidized loan limit.
2. The maximum subsidized amount is $2,625.
3. The maximum subsidized amount is $3,500.
4. The maximum subsidized amount is $5,500.
5. The maximum subsidized amount is $8,500.
6. Health profession students who could have borrowed from the defunct Health Education Assistance Loan (HEAL) Program may borrow additional unsubsidized loans up to the maximum HEAL amount for the student's health professions discipline.

* For Title IV federal student aid programs, all graduate and professional students are considered independent students.

About Combined Annual Limits

The annual loan limits dictate the maximum combined total of Direct Subsidized Loans and Direct Unsubsidized Loans a student may borrow. See the chart on the previous page for actual annual loan-limit amounts.

These limits include a student's outstanding subsidized and unsubsidized loan totals under *both* the Direct Loan Program and the Federal Family Education Loan (FFEL) Program, even if the student previously consolidated any or all of these loans. Once the loans are repaid in full or in part, a student may reapply for Direct Subsidized Loans or Direct Unsubsidized Loans.

- Direct PLUS Loans under either program are not included in the assessment of a student's outstanding subsidized and unsubsidized loan totals; they are the parent's—not the student's—loans.

Take a Look

- See page 2-37 for details about Direct Consolidation Loans.
- See page 2-31 for details about Direct PLUS Loans.

Example

James is in a one-year program at The Baking School. He's a dependent student, so he may not borrow more than $2,625 in a combination of Direct Subsidized Loan and Direct Unsubsidized Loan.

James is eligible for a $1,000 Direct Subsidized Loan. As a result, he can't borrow more than a $1,625 Direct Unsubsidized Loan.

$2,625 Combined Annual Direct Loan Maximum
– $1,000 Direct Subsidized Loan
= $1,625 Direct Unsubsidized Loan

Effect of Dependency Status and Year in School

The annual loan maximum takes into consideration a student's dependency status and year in school. Of course, there are other eligibility requirements as well. Chapter 5 of this guide explains dependency status as well as other Direct Loan eligibility requirements.

Take a Look

See Chapter 5 for details about borrower eligibility.

Loans must be prorated when a student is enrolled:

- in a program containing fewer weeks, clock hours, or credit hours than the statutory academic year or
- in a program that is longer than an academic year, but the final period of study is shorter than an academic year.

Here are two examples of how to prorate Direct Loans for students.

Example #1

Sharon, a dependent student, goes to Fine College of Art, which is a quarter-term school. Fine College of Art has a 30-week academic year, which consists of three quarter terms.

Sharon is in a four-year baccalaureate program. But it's taken more than four years for Sharon to finish the program because she took two leaves of absence. She's now in the final stretch of her academic program. All she needs to do is complete one quarter term as a full-time student, then she'll get her degree.

- As a fourth-year, dependent, undergraduate student, Sharon is not allowed to borrow more than $5,500 in a combination of Direct Subsidized Loan and Direct Unsubsidized Loan for the academic year.
- But Sharon is enrolled for one-third of the academic year (one quarter term out of three).
- This means she may not borrow more for the term than $1,834 in a combination of Direct Subsidized Loan and Direct Unsubsidized Loan funds.

$$\frac{\text{\$5,500 Combined Annual Direct Loan Maximum}}{\text{3 (one-third of the academic year)}} = \text{\$1,834 (Sharon's Combined Direct Loan Maximum for the Quarter Term)}$$

Example #2

Hector is an independent student enrolled in a Web-site design and administration program at The Computer School (TCS). This is a 650-clock-hour, 28-week program, although TCS's academic year is 900 clock hours and 30 weeks long.

Hector is considered a first-year student. As a result, he is not allowed to borrow more than $6,625 in a combination of Direct Subsidized Loan and Direct Unsubsidized Loan for the academic year.

- Because Hector is enrolled for less than a full academic year,
- TCS must prorate how much in Direct Loans he may borrow by comparing two fractions and taking the lesser of the two.

650 clock hours in program	28 weeks instructional time in program
900 clock hours in academic year	30 weeks instructional time in academic year
650/900 = .72	28/30 = .93

- The lesser fraction is for clock hours (.72).
- TCS multiplies $6,625 by .72 to calculate the maximum Hector can borrow in a combination of Direct Subsidized Loan and Direct Unsubsidized Loan.

$6,625 X .72 = $4,770 (Hector's combined Direct Loan maximum for the 650-clock-hour program)

Additional Direct Unsubsidized Loan Amounts for Dependent Students

A dependent student may borrow additional Direct Unsubsidized Loan funds—up to the loan limits for independent students—if his or her parents are likely to be precluded by exceptional circumstances from borrowing a Direct PLUS Loan *and* if his or her family is otherwise unable to provide the student's expected family contribution. Any time a dependent student borrows additional Direct Unsubsidized Loan funds, the school must document the reason in the student's file. "Exceptional circumstances" include but are not limited to:

- a Direct Loan school chooses not to offer Direct PLUS Loans,
- the parent is turned down for a Direct PLUS Loan because of adverse credit,
  - If a school has good reason to believe a parent's Direct PLUS Loan application will be denied because of adverse credit, it can award the student additional Direct Unsubsidized Loan funds without the parent first applying—and being rejected—for a Direct PLUS Loan. However, a parent borrower having previously been denied a loan is not an acceptable reason for awarding a student additional Direct Unsubsidized Loan funds. The school must base its decision to bypass the application process on the parent borrower's current eligibility for a Direct PLUS Loan under requirements in 34 CFR a685.200(b).
- the parent receives only public assistance or disability benefits (this must be documented in the student's file),
- the parent is incarcerated (this must be documented in the student's file), or
- the parent's whereabouts are unknown (this must be documented in the student's file).

Beginning July 1, 2000, a school's decision to award additional unsubsidized funds to a dependent undergraduate student may *not* be based on a parent's inability to borrow in a program in which the school does not participate. For example, a Direct Loan school that does not participate in either Direct PLUS Loans or FFEL Program PLUS Loans will not be able to award additional unsubsidized funds to dependent students under any circumstances.

Take a Look

See Chapter 5 for details about when schools can have parents bypass the Direct PLUS Loan application process.

- However, as an example, a Direct Loan/FFEL school that participates in FFEL Program PLUS Loans but not in Direct PLUS Loans, may award additional unsubsidized Direct Loan funds to a student on the basis of a parent's inability to borrow a FFEL Program PLUS Loan, as long as the FFEL Program PLUS Loan was otherwise available to the parent.

Higher Annual Loan Limits for Health Professions Students

Under certain circumstances, health professions students who would have borrowed from the now defunct Health Education Assistance Loan (HEAL) Program may be eligible for higher Direct Unsubsidized Loan limits.

Regardless of whether a school previously participated in the HEAL Program, for any loan period that begins on or after May 1, 1999, the increased limits for unsubsidized loans are available for students enrolled in the health professions disciplines that were funded under the HEAL Program (see GEN-98-18 for guidance on prior loan periods). Additionally, the health professions program at an institution must be accredited by an approved accrediting agency. The health professions disciplines whose students are eligible for the increased funding and the approved accrediting agency for each discipline are:

- <u>allopathic medicine</u> accredited by the Liaison Committee on Medical Education;
- <u>osteopathic medicine</u> accredited by the American Osteopathic Association, Bureau of Professional Education;
- <u>dentistry</u> accredited by the American Dental Association, Commission on Dental Accreditation;
- <u>veterinary medicine</u> accredited by the American Veterinary Medical Association, Council on Education;
- <u>optometry</u> accredited by the American Optometric Association, Council on Optometric Education;
- <u>podiatric medicine</u> accredited by the American Podiatric Medical Association, Council on Podiatric Medical Education;

- pharmacy accredited by the American Council on Pharmaceutical Education;
- public health accredited by the Council on Education for Public Health;
- chiropractic medicine accredited by the Council on Chiropractic Education, Commission on Accreditation;
- health administration graduate programs accredited by the Accrediting Commission on Education for Health Services Administration; and
- clinical psychology accredited by the America Psychological Association, Committee on Accreditation.

Aggregate Loan Limits

The combined aggregate loan limits for Direct Subsidized Loans and Direct Unsubsidized Loans are in a chart below.

Direct Subsidized Loans and Direct Unsubsidized Loans: Combined Aggregate Loan Limits

Dependent undergraduate

- combined subsidized and unsubsidized—$23,000*
- maximum subsidized—$23,000*

Independent undergraduate

- combined subsidized and unsubsidized—$46,000*
- maximum subsidized—$23,000

Graduate/professional

- combined subsidized and unsubsidized—$138,000**
- maximum subsidized—$65,500

Footnotes

* The only undergraduate program that has been eligible for the now defunct Health Education Assistance Loan (HEAL) Program loans is the five-year Bachelor of Pharmacology program. ED is establishing an aggregate unsubsidized loan limit of $70,625, less the aggregate amount of any subsidized loans made to the student, for those undergraduate pharmacy students who are eligible to receive increased amounts of unsubsidized loans because of the phase-out of the HEAL Program.

** For health professions students who would have been eligible to borrow from the HEAL Program, the combined aggregate subsidized and unsubsidized limit is $189,125. The maximum subsidized portion remains $65,500.

As with combined annual Direct Loan limits, the aggregate limits include a student's outstanding subsidized and unsubsidized loan totals under *both* the Direct Loan and the FFEL Programs, even if the student has consolidated any or all of these loans. Once the loans are repaid in full or in part, a student may reapply for Direct Subsidized Loans or Direct Unsubsidized Loans.

Take a Look

- See page 2-37 for details about Direct Consolidation Loans.
- See page 2-31 for details about Direct PLUS Loans.

- Direct PLUS Loans under either program are not included in the assessment of a student's outstanding subsidized and unsubsidized loan totals; they are the parent's—not the student's—loans.

In determining whether a borrower has reached the aggregate loan limit, only the unpaid principal balance from the original loan amounts is counted. Any portion of a borrower's outstanding principal balance that is the result of capitalized interest is excluded.

Interest Rates

Laws & Regulations

- 34 CFR 685.202(a)

Direct Subsidized Loans and Direct Unsubsidized Loans have the same interest rate. The interest rate is variable on an annual basis, but it is capped at 8.25 percent. This means that the interest rate on Direct Loans for students can change from year to year but will not go above 8.25 percent.

Charging Interest

For Direct Subsidized Loans, ED *does not* charge interest while borrowers are enrolled at least half time in school or during grace periods and deferment periods. ED charges interest during all other periods, that is, during repayment periods and forbearance periods.

For Direct Unsubsidized Loans, ED *does* charge interest over the entire life of the loan. This includes in-school periods, grace periods, deferment periods, forbearance periods, and repayment periods.

Calculating Interest Rates

Laws & Regulations

- HEA, Title IV, Section 455(b)

The rate is determined on June 1 each year and applies to the subsequent 12-month period from July 1 to June 30. The formula ED uses to calculate the interest rate is in the HEA.

- The formula starts with the bond equivalent rate of 91-day Treasury bills auctioned at the final auction before June 1.

- To this "average" Treasury-bill rate, ED then adds an additional percentage.

- The resulting sum is the interest rate for Direct Subsidized Loans and Direct Unsubsidized Loans for the year.

From time to time, Congress has enacted changes to the HEA that affect the amount of the additional percentage ED adds. As a result, not all Direct Loans for students have the same interest rate (although the interest rate cap has always been 8.25 percent since the Direct Loan Program began in 1994).

- The interest rates for Direct Loans for students disbursed on or after July 1, 1998 are:
  - for in-school, grace, and deferment periods: 91-day Treasury bill bond equivalent rate + 1.7 percent; and
  - for all other periods (such as forbearance and repayment): 91-day Treasury bill bond equivalent rate + 2.3 percent.
- The interest rates for Direct Loans for students disbursed on or after July 1, 1995 but before July 1, 1998 are:
  - for in-school, grace, or deferment periods: 91-day Treasury bill bond equivalent rate + 2.5 percent; and
  - for all other periods (such as forbearance and repayment): 91-day Treasury bill bond equivalent rate + 3.1 percent.
- The interest rate for student loans first disbursed before July 1, 1995 is:
  - for *all* periods: 91-day Treasury bill bond equivalent rate + 3.1 percent.
  - There is no difference in interest rates on the basis of borrower status, for example, being in school versus being in repayment.

For academic year 1999-2000, the interest rates were recalculated based on the bond equivalent rate of the 91-day Treasury bills auctioned at the final auction before June 1, 1999. These recalculated interest rates will be effective for loans disbursed to students from July 1, 1999 to June 30, 2000.

Take a Look

- See page 2-15 for details about grace periods.
- See page 2-15 for details about deferment periods.
- See page 2-27 for details about forbearance periods.
- See page 2-19 for details about repayment.

For Your Information

July 1, 1999 - June 30, 2000 interest rates for Direct Loans for students for:

- Loans first disbursed on or after July 1, 1998
  - In-school, grace, & deferment—6.32%
  - Other periods—6.92%
- Loans first disbursed on or after July 1, 1995, but before July 1, 1998:
  - In-school, grace, & deferment—7.12%
  - Other periods—7.72%
- Loans first disbursed before July 1, 1995:
  - In-school, grace, & deferment—7.72%
  - Other periods—7.72%

Capitalizing Interest

Laws & Regulations

- 34 CFR 685.202(b)

Capitalizing interest means adding unpaid, accrued (accumulated) interest to the principal balance of a loan (that is, the total amount borrowed). During certain periods, borrowers can pay interest on an ongoing basis or allow interest to accrue and capitalize.

- For example, a Direct Unsubsidized Loan borrower can either pay the interest while he or she is in school or allow the interest to accrue and be capitalized.

Interest capitalizes when a borrower's unpaid accrued interest is added to the borrower's principal balance.

Take a Look

- See page 2-27 for details about forbearance.
- See page 2-19 for details about repayment.
- See page 2-15 for details about deferment.

Unpaid accrued interest capitalizes whenever a borrower changes status.

- For Direct Subsidized Loans:
  - Unpaid interest that accrued during a forbearance period will be capitalized at the end of the forbearance period.
- For Direct Unsubsidized Loans:
  - Unpaid interest that accrues before a repayment period begins is capitalized when the loan enters repayment.
  - Unpaid interest that accrues during a deferment period or forbearance period is capitalized at the end of the respective period.
- For Direct Subsidized Loans *and* Direct Unsubsidized Loans:
  - Unpaid interest that accrued while borrowers repay using the Income Contingent Repayment (ICR) Plan is capitalized on a yearly basis.
  - ED has the authority to capitalize unpaid interest on Direct Loans that go into default.

Loan Fees

Laws & Regulations

- 34 CFR 685.202(c)

ED charges a loan fee of 3 percent of the principal amount of the loan on all Direct Subsidized Loans and Direct Unsubsidized Loans for 1999-2000 disbursed on or after August 15, 1999.

- Direct Subsidized Loans and Direct Unsubsidized Loans disbursed before August 15, 1999 carry a 4 percent loan fee.
- All Direct PLUS Loans continue to have a 4 percent loan fee.

The loan fee is deducted from the loan proceeds through prorated amounts taken from each disbursement of the loan.

If a Direct Loan is canceled (adjusted downward to $0) or a portion of the loan amount is adjusted downward by the school to comply with the HEA or applicable regulations, ED eliminates or reduces the loan fee that pertains to the downward-adjusted portion of the disbursement.

Take a Look

- See page 2-32 for Direct PLUS Loan fees.
- See Chapter 8 for details about adjusting Direct Loan amounts.

Late Charges

ED is allowed to require borrowers to pay a late charge of up to six cents for each dollar of a required monthly payment (or portion thereof) not paid within 30 days of its due date. Currently, ED is not charging late fees.

Laws & Regulations

- 34 CFR 685.202(d)

Collection Charges

ED may assess collection charges before or after a loan goes into default. When a borrower who is not in default on a Direct Loan does not pay an installment when it is due, ED can require the borrower or endorser to pay for any collection costs in excess of routine collection costs. An example of nonroutine collections costs is the cost of processing checks returned for insufficient funds.

If a borrower is in default on a Direct Loan, ED can hold the borrower or endorser responsible for other additional costs, such as the cost of litigating collection of the defaulted loan.

Laws & Regulations

- 34 CFR 685.202(e)

Prepayment

A prepayment occurs when a borrower:

- pays all or part of a loan before a payment is due or
- pays an amount in addition to the amount required for a monthly payment on the loan.

Laws & Regulations

- 34 CFR 685.211(a)

Direct Loan borrowers can prepay at any time without penalty, that is, without paying an additional charge.

If a prepayment amount is less than the monthly payment the borrower owes, ED applies the prepayment first to any accrued charges or collection costs, then to any outstanding interest, and then to outstanding principal.

When a borrower makes a prepayment that equals or is more than the monthly repayment installment amount, ED:

- applies the prepaid amount first to any accrued charges or collection costs, then to any outstanding interest, and then to outstanding principal;
- advances the due date of the next payment, unless the borrower requests otherwise; and
- notifies the borrower of any revised due date for the next payment.

Example

Elizabeth's payments are $50 a month; they are due the first of each month. For the payment due June 1, Elizabeth sends $150.

- The first $50 is her June 1 payment.
- If there are no collection costs or outstanding interest, the next $50 is Elizabeth's July 1 payment.
- If there are no collection costs or outstanding interest, the next $50 becomes her August 1 payment.

Elizabeth does not owe another payment until September 1.

If Elizabeth had asked that the payments not be advanced, the additional $100 would go toward paying off the principal, and Elizabeth would still owe a payment on July 1. Not advancing the payment shortens the time Elizabeth's loan is in repayment and reduces the total amount of interest she would have to pay on her loan.

Grace Periods

The grace period is the six-month period before a loan enters repayment.

- The grace period starts the day after a borrower ceases to be enrolled as at least a half-time student at an eligible institution.
- It ends six months later, on the day before the loan repayment period starts.
- A grace period may end more than six months after it begins if the borrower is on active duty with the military.

During the grace period, Direct Subsidized Loan borrowers are not required to make payments on the loan principal and are not charged interest. Direct Unsubsidized Loan borrowers are not required to make payments on the loan principal, but they *are* responsible for the interest that accrues.

If a student returns to school at least half time before the grace period ends, the student may again postpone loan repayment while in school, and the student will be entitled to a full six-month grace period after terminating enrollment or after dropping below half-time status.

Laws & Regulations

- 34 CFR 685.207(b) & (c)

Take a Look

See page 2-35 for details about grace periods for Direct PLUS Loans for parents.

Deferment

Deferment refers to periods during which payments of principal on Direct Loans are postponed. No interest is charged to borrowers on Direct Subsidized Loans during periods of deferment. However, interest accrues and is charged to borrowers on Direct Unsubsidized Loans. Unsubsidized loan borrowers may choose either to pay the interest or to have it capitalized (added to their loan principal).

Once repayment begins, borrowers are entitled to deferments if they meet certain requirements. To receive a deferment, however, borrowers must request—and be granted—deferments by ED. Borrowers should continue making loan payments until they are notified that ED has approved the deferment.

Usually, a deferment period begins on the same date as the condition that makes the borrower eligible for a deferment, such as becoming unemployed or beginning rehabilitation training. A deferment may be granted retroactively for as much as six months.

Laws & Regulations

- 34 CFR 685.204

Take a Look

See Chapter 3 for details about how defaulted Direct Loans affect borrowers.

Borrowers who are in default on federal education loans or owe overpayments on a federal grant lose eligibility for deferments. Borrowers can regain eligibility by repaying the loans in full or by making satisfactory repayment arrangements.

In general, there are six types of authorized deferments. Borrowers may obtain deferments for:

- in-school student status,
- study in an eligible fellowship program,
- study in an approved rehabilitation training program,
- participation in a dental residency program,
- seeking full-time employment, and
- economic hardship.

In-School Deferments

Reference

- *SFA Handbook: Institutional Eligibility and Participation*

A deferment for at-least-half-time study at an eligible school is commonly referred to as an in-school deferment. Any school that meets the definition of an eligible institution, whether or not it is currently participating in a Title IV student aid program, is an eligible school for the purpose of in-school deferments.

- If a school never participated in any of the Title IV programs, ED must decide whether the school meets the definition of an eligible institution before the school may certify an in-school deferment.
- The institutional eligibility section of ED's *Student Financial Aid (SFA) Handbook* provides extensive information about school requirements.

Graduate Fellowships Deferments

Borrowers may receive deferments for study in a graduate fellowship program. However, ED must approve the program.

Rehabilitation Training Deferments

Borrowers with disabilities may receive deferments for study in a rehabilitation training program. These training programs also must be approved by ED for borrowers to obtain these deferments.

Dental Residency Deferments

Borrowers participating in a residency training program in dentistry may receive deferments. Borrowers in medical internship or residency training programs are not eligible. However, they may be eligible for other types of deferments (for example, Economic Hardship Deferments).

Deferments for Seeking Full-Time Employment

Borrowers seeking and unable to find full-time employment can obtain a deferment. They must submit a deferment request every six months, however, to affirm their continuing employment search. Borrowers cannot receive this type of deferment for more than three years.

Economic Hardship Deferments

Borrowers experiencing economic hardship might be eligible for deferments, but they must submit a deferment request every 12 months to affirm continuing eligibility. Borrowers cannot receive this type of deferment for more than three years. Economic hardship exists when a borrower:

- is receiving payment under a federal or state public assistance program; or
- is working full time and is earning a total monthly gross income that does not exceed the greater of:
  - the minimum wage or
  - the poverty line for a family of two, as determined in Section 673(2) of the Community Service Block Grant Act; or
- meets other criteria, described in the following subsections.

Laws & Regulations

- Community Service Block Grant Act, Section 673(2)

Education Debt Burden

Borrowers may qualify for an Economic Hardship Deferment if they are working full time and have an annual federal education debt burden that is at least 20 percent of their total monthly gross income. (Defaulted loans are not included in the education debt burden unless a borrower has made satisfactory repayment arrangements.) A borrower's income minus the educational debt burden must be less than 220 percent of the greater of:

- the minimum wage rate, or
- an amount equal to 100 percent of the poverty line for a family of two.

Less than Full-Time Employment

Borrowers who are not working full time also might be eligible for an Economic Hardship Deferment. This would be if a borrower is not working full time and the borrower's total monthly gross income from all sources is less than twice the greater of:

- the minimum wage rate or
- the poverty line for a family of two.

In addition, after deducting total monthly payments on federal education loans, the borrower's income from all sources may not exceed the larger of:

- the minimum wage rate or
- the poverty line for a family of two.

Other Federal Loans with Economic Hardship Deferments

Direct Loan borrowers also qualify for Economic Hardship Deferments if they have been granted an Economic Hardship Deferment for loans they borrowed from the FFEL Program or the Federal Perkins Loan Program. The Economic Hardship Deferment for these federal student loans must apply to the same period that a borrower is requesting an Economic Hardship Deferment for his or her Direct Loans.

Other Deferments

Borrowers are entitled to the deferments listed on the promissory note. These deferments cannot be taken away. Congress also has the authority to add deferments that are not listed on the promissory note.

- For example, a borrower may qualify for some additional types of deferments if, at the time the borrower applied for his or her first Direct Loan, the borrower had an outstanding balance of principal or interest on a FFEL Program loan that was made, insured, or guaranteed before July 1, 1993. In that case, the borrower would be eligible for the same, additional deferments on Direct Loans as those for the previous FFEL Program loans.
- These deferments are listed in FFEL Program regulations.

Laws & Regulations

- 34 CFR 682.210(b)

Repayment

The loan repayment period for Direct Subsidized Loans and Direct Unsubsidized Loans begins the day after the grace period ends. This is when borrowers begin repaying their loans (unless they enter a deferment period or forbearance period).

The first payment is due within 60 days of the start of the repayment period. The length of time a borrower's loan is in repayment varies depending on the total amount owed and the repayment plan selected. In general, the shorter a repayment period, the less interest a borrower will have to pay over the life of the loan.

Laws & Regulations

- 34 CFR 685.207

For Your Information

ED is planning to offer two repayment discounts on Direct Subsidized Loans and Direct Unsubsidized Loans:

- a 0.25 percentage point interest rate reduction for borrowers paying electronically and
- a 0.6 percentage point interest rate reduction for borrowers who consolidate their loans while they are in school or during the grace period before they enter loan repayment.

Choice of Repayment Plans

Laws & Regulations

- 34 CFR 685.208(a)

Borrowers have the option of choosing one of five Direct Loan Program repayment plans. The following chart lists the five repayment plans and the number of years borrowers have to repay their Direct Loans under each plan.

Direct Loan Program Repayment Plans

Repayment Plan	Length of Repayment
• Standard Repayment Plan	up to 10 years
• Extended Repayment Plan	12-30 years
• Graduated Repayment Plan	12-30 years
• Income Contingent Repayment Plan	up to 25 years
• Alternative Repayment Plan	up to 30 years

For Your Information

The Alternative Repayment Plan is not commonly used.

- It's for borrowers who can demonstrate that the other four repayment plans do not meet their exceptional circumstances.
- Borrowers cannot select the Alternative Repayment Plan without ED approval.

Borrowers must use one repayment plan for all of their Direct Subsidized Loans and Direct Unsubsidized Loans. However, borrowers have the option of changing repayment plans at any time. (Parent borrowers with Direct PLUS Loans and Direct PLUS Consolidation Loans may choose a separate repayment plan for these loans. They may not, however, choose the Income Contingent Repayment [ICR] Plan.)

Shortly before a borrower's loan enters repayment, the borrower receives information from ED's Direct Loan Servicing Center (DLSC) that describes each repayment plan (including the total amount the borrower will repay under each plan) and asks the borrower to select a repayment plan. Borrowers who do not make a selection are automatically placed on the Standard Repayment Plan.

Standard Repayment Plan

The Standard Repayment Plan allows borrowers to repay their loans by making fixed monthly payments (that is, the same payment amount each month) for a maximum of ten years, or 120 months.

- The minimum monthly payment is $50. However, borrowers might pay more each month. The actual monthly payment depends on the size of the loan and the prevailing interest rate when the repayment period begins.
- The ten-year period, which does not include deferment periods or forbearance periods, can vary for a number of reasons.
  - For example, borrowers who owe small loan amounts might not need ten years to repay their Direct Loans in full. Also, the exact number of monthly payments for those borrowers might vary to accommodate annual changes to Direct Loan Program interest rates.

The following charts illustrate how much a borrower would pay each month under the Standard Repayment Plan, assuming an 8.25 percent interest rate. The first sample assumes that a borrower owes $15,000 in Direct Subsidized Loan principal.

Laws & Regulations

- 34 CFR 685.208(b)

Sample Payment for the Standard Repayment Plan: Direct Subsidized Loan

Principal	Monthly Payment	Total Amount Repaid
$15,000	$184	$22,080 ($15,000 principal + $7,080 interest)

The second sample assumes the borrower has taken out $15,000 in Direct Unsubsidized Loans at 8.25 percent to attend school. Because the borrower chose not to pay interest as it accrued over four years, at the time the loan entered repayment, $2,717 in capitalized interest was added to the original principal of $15,000, resulting in a total principal balance of $17,717.

Sample Payment for the Standard Repayment Plan: Direct Unsubsidized Loan				
Principal	**Capitalized Interest**	**Principal to be Repaid**	**Monthly Payment**	**Total Amount Repaid**
$15,000	$2,717 (Interest accrued before the repayment period began)	$17,717 ($15,000 principal + $2,717 interest accrued before repayment period)	$217	$26,040 ($15,000 principal + $11,040 total interest)

In general, borrowers who use the Standard Repayment Plan pay the least amount of interest since the repayment period is shorter than for other plans. It also means that the monthly payments are higher.

Extended Repayment Plan

Laws & Regulations

- 34 CFR 685.208(c)

Like the Standard Repayment Plan, the Extended Repayment Plan has a $50 minimum monthly payment. However, unlike the Standard Repayment Plan, this plan gives Direct Loan borrowers 12 to 30 years to repay their loans.

- The length of repayment depends on the total Direct Loan amount that a borrower owes.

- For lower loan amounts, the period can be less than 12 years because a borrower must make payments of at least $50 each month.

As a general rule, repayment takes longer with the Extended Repayment Plan than with the Standard Repayment Plan, which has a ten-year repayment-period limit. As a result, borrowers using the Extended Repayment Plan pay less per month, but more in total. Although borrowers end up paying more in the long run, the Extended Repayment Plan's lower monthly payments can help borrowers whose incomes are not sufficient to manage the monthly payments required for the Standard Repayment Plan.

The following chart shows how much borrowers might pay each month and in total on Direct Subsidized Loans if they used the Extended Repayment Plan. The chart assumes that the interest rate is 8.25 percent and that the borrower is repaying over 15 years (180 monthly payments).

Sample Payment for the Extended Repayment Plan
Direct Subsidized Loan

Principal	Monthly Payment	Total Amount Repaid
$15,000	$146	$26,280 ($15,000 principal + $11,280 interest)

Graduated Repayment Plan

Like the Extended Repayment Plan, the Graduated Repayment Plan gives borrowers 12 to 30 years to repay their loans, depending on the size of their Direct Loan debt.

Laws & Regulations

- 34 CFR 685.208(d)

Extended/Graduated Repayment Plans

Amount of Debt	Length of Repayment
• Less than $10,000	12 years
• $10,000 to $19,999	15 years
• $20,000 to $39,999	20 years
• $40,000 to $59,999	25 years
• $60,000 or more	30 years

The Graduated Repayment Plan has the advantage of offering lower monthly payments during the early portion of a borrower's career when a borrower's income is likely to be lower. However, borrowers using this plan will probably pay more over the repayment period than borrowers using the Standard Repayment Plan or the Extended Repayment Plan.

The monthly payments start low and then increase approximately every two years throughout the repayment period.

- The minimum monthly payment is the greater of:
  - the interest that accumulates between monthly payments or
  - 50 percent of the monthly payment a borrower would have paid using the Standard Repayment Plan.
- The maximum monthly payment is never more than 150 percent of what the borrower would have paid using the Standard Repayment Plan.

The sample in the Graduated Repayment Plan chart below shows how monthly payments can change from the beginning of a repayment period to the end. The sample assumes the following:

- The principal is $15,000 in Direct Subsidized Loan.
- The interest rate is 8.25 percent.
- The repayment period is 15 years.

Sample Payment for the Graduated Repayment Plan: Direct Subsidized Loan

Principal	Beginning Monthly Payment	Ending Monthly Payment	Total Amount Repaid
$15,000	$105	$238	$28,628 ($15,000 principal + $13,628 total interest)

Income Contingent Repayment Plan

The Income Contingent Repayment Plan helps borrowers to meet their repayment obligations without causing undue financial hardship. This plan is tailored to a borrower's personal financial situation by taking into account his or her annual income, family size, and amount of outstanding Direct Subsidized Loans and Direct Unsubsidized Loans. Parent borrowers with Direct PLUS Loans and Direct PLUS Consolidation Loans may not choose this repayment plan.

Required documentation. To participate in the Income Contingent Repayment Plan, a borrower (and, if married, the borrower's spouse) must sign a form that permits the Internal Revenue Service (IRS) to inform ED of certain information, such as the borrower's (and spouse's) adjusted gross income (AGI). ED may use this information to calculate the borrower's monthly payment.

Under certain circumstances, ED may also require alternative documentation from borrowers (and spouses) to calculate borrowers' monthly payment amounts. Examples of alternative documentation include pay stubs, canceled checks, or, if these are unavailable, signed statements explaining the borrowers' income sources.

ED requires borrowers to provide alternative documentation:

- when the AGI is not available;
- in the first and possibly the second year of repayment, when a borrower's reported AGI may not reasonably reflect current income; and
- for any other reasons that ED believes that the borrower's reported AGI may not reasonably reflect current income.

Borrowers also submit alternative documentation with their requests to adjust monthly payments when changes in their circumstances occur, such as loss of employment.

Length of repayment. The maximum repayment period is 25 years. If a borrower made payments under the Standard Repayment Plan or the 12-year Extended Repayment Plan and then switches to the Income Contingent Repayment Plan, the repayment periods under the other plans count toward the 25-year repayment period.

Laws & Regulations

- 34 CFR 685.209
- 34 CFR 685.208(f)

- Payments a borrower made under the Graduated Repayment Plan or the Alternative Repayment Plan do not count toward the maximum 25 years.

- If a borrower has not fully repaid the loans after 25 years under this plan, the unpaid portion is discharged (that is, the borrower doesn't have to repay that portion). However, the borrower must pay taxes on the amount discharged.

- Payments a borrower made under an Extended Repayment Plan with a repayment period longer than 12 years do not count toward the maximum 25 years.

Take a Look

See Appendix C, which contains the Direct Loan regulations, including information about income percentage factors and determining "poverty level" by family size.

Monthly payments. A borrower pays the lesser of:

- the amount he or she would have paid if the borrower repaid the loan in 12 years multiplied by an income percentage factor that varies with annual income and marital status (single, married, or head of household); or

- 20 percent of the borrower's discretionary income, which is the borrower's AGI minus the poverty level for his or her family size.

Borrowers are obligated to pay the monthly payment amount calculated by ED. However, there are two exceptions.

- The borrower's monthly payment is zero if income is less than or equal to the poverty level for the family size.

- The borrower's monthly payment is $5 if the calculated monthly payment would have been greater than zero but less than $5.

Take a Look

See page 2-12 for details about capitalization.

Capitalizing interest. If monthly payments do not cover accruing interest, the unpaid interest is capitalized (added to the principal) once each year. If capitalizing the interest increases the total amount a borrower owes to more than 110 percent of the loan amount when the repayment period began, interest will continue to accrue, but it won't be capitalized.

Reference

- *Repayment Book* (about Direct Loans)

Web Site

- http://ed.gov/DirectLoan

ED publishes a Direct Loan *Repayment Book*, which provides step-by-step directions for calculating monthly repayments for the Income Contingent Repayment Plan. This booklet is available on ED's Direct Loan Web site.

Married borrowers. If borrower and his or her spouse have each borrowed Direct Loans, they can repay their loans jointly. The payment is based on the married borrowers' joint debt and joint income. Married borrowers are not required to repay loans jointly. However, if only one of the marriage partners chooses to repay under the Income Contingent Repayment Plan, ED uses the AGI (or alternative documentation of income) for both borrowers to determine the monthly payments.

Switching Repayment Plans

Direct Loan borrowers sometimes decide that their repayment plan no longer meets their needs. A borrower can switch plans at any time as long as the maximum repayment period for the new plan is longer than the amount of time the borrower's loan has already been in repayment under the previous plan(s). However, the borrower may switch to the Income Contingent Repayment Plan at any time, but the repayment period may be recalculated. ED must approve all repayment plan changes.

Laws & Regulations

- 34 CFR 685.210(b)

Take a Look

See page 2-25 for details on length of repayment under the Income Contingent Repayment Plan.

Borrowers who have defaulted on their Direct Loans and are repaying them on the Income Contingent Repayment Plan are usually not allowed to switch plans. However, a borrower in this situation may switch to another repayment plan, if ED approves the changes and if the borrower:

- was required to and made payments under the Income Contingent Repayment Plan in each of the prior three months or
- was not required to make payments but, nonetheless, made three reasonable and affordable payments in each of the prior three months.

Forbearance

Forbearance refers to periods in which borrowers are allowed to:

- stop making payments temporarily,
- extend the time for making payments, or
- temporarily make smaller payments than previously scheduled.

Laws & Regulations

- 34 CFR 685.205(a)

In the Direct Loan Program, borrowers have the option of choosing the form of forbearance. ED grants forbearance for a period of up to one year. Borrowers can request a renewal of their forbearance status for the duration of the period in which the borrower meets the condition required for the forbearance.

While borrowers are relieved of paying principal during forbearance, interest continues to accrue. This is true for both Direct Subsidized Loans and Direct Unsubsidized Loans. If borrowers do not pay accruing interest during the forbearance period, the interest is capitalized.

A borrower or endorser may receive forbearance, on request, if ED decides that the borrower or endorser intends to repay the loan and provides documentation that:

- the borrower or endorser is currently unable to make scheduled payments due to poor health or other acceptable reasons;
- the borrower is in a medical or dental internship or residency that must be successfully completed before the borrower may begin professional practice or service;
- the borrower is in a medical or dental internship or residency program leading to a degree or certificate awarded by an institution of higher education, a hospital, or health-care facility that offers postgraduate training;
- the borrower is serving in a national service position for which the borrower will receive a national service educational award (grant) under the National Community Service Trust Act of 1993; or
- the borrower's monthly payments on federal education loans are equal to or greater than 20 percent of the borrower's or endorser's total monthly gross income.
  - This forbearance option is limited to three years.

Administrative Forbearance

Laws & Regulations

- 34 CFR 685.205(b)

In certain instances, ED grants forbearance without requiring documentation from borrowers. These circumstances include, but are not limited to:

- a properly granted period of deferment for which ED later learns a borrower did not qualify;
- a period for which payments are overdue at the beginning of a deferment;
- the period from the time a borrower entered repayment until the first payment due date is established;

- a period before a borrower's bankruptcy petition; or
- a period after ED receives reliable information indicating that a borrower (or the student in the case of a Direct PLUS Loan) has died or has become totally and permanently disabled until ED receives documentation verifying those conditions.

Administrative forbearance may also be granted for periods necessary for ED to determine a borrower's eligibility for discharge because:

- the borrower or endorser filed for bankruptcy;
- the borrower did not complete the program of study for which the loan was made because the school at which the student was enrolled closed; or
- the school at which the student was enrolled falsely certified the borrower's eligibility or made an unauthorized payment to the borrower.

Other Forbearance Circumstances

There are other circumstances in which a borrower may qualify for forbearance. For example, forbearance may be granted when the effect of a variable interest rate on a fixed amount or graduated repayment schedule extends repayment past the maximum repayment term. Borrowers might also receive forbearance when there is a national military mobilization or other local or national emergency.

Discharge

Under certain conditions, all or a portion of a borrower's loan debt may be canceled or "discharged." The conditions are:

- death or total and permanent disability,
- bankruptcy,
- closed schools,
- falsely certified loans, and
- failing to refund loan proceeds.

Laws & Regulations

- 34 CFR 685.212

Death and Disability

Laws & Regulations
- 34 CFR 685.212(a) & (b)

If a Direct Loan borrower dies or becomes totally and permanently disabled, ED discharges the borrower's (and endorser's) obligation to make any further payments on the loan.

More About Total and Permanent Disability

A borrower is not considered totally and permanently disabled on the basis of a condition that existed at the time the borrower applied for the loan. An exception to this rule is when a borrower's condition substantially deteriorates after the loan is made. In these cases, the borrower must be rendered totally and permanently disabled.

Bankruptcy

Laws & Regulations
- 34 CFR 685.212(c)
- *11 U.S.C 523(a)(8)*

A federal student loan or federal grant overpayment cannot be discharged in bankruptcy unless the bankruptcy court determines that repaying the debt would cause an undue hardship on the debtor and his or her dependents. If a borrower's obligation to repay a loan is discharged in bankruptcy, ED does not require the borrower to make any further payments on the loan. However, in this case, the endorser on a Direct PLUS Loan would assume the borrower's responsibility to repay the remaining amount.

Closed Schools

Laws & Regulations
- 34 CFR 685.212(d)
- 34 CFR 685.213

A borrower's obligation is to repay an FFEL Program loan received on or after January 1, 1986 or any Direct Loan is canceled if the student (either the student borrower or the student on whose behalf a parent obtained a Direct PLUS Loan or a FFEL Program PLUS Loan) was unable to complete his or her program of study because the school closed or if the student withdrew from the school not more than 90 days before the school closed. This 90-day period may be extended on a case-by-case basis if ED deems an extension is appropriate.

False Certification

If a borrower meets the requirements for a discharge because the school at which the student was enrolled falsely certified the borrower's eligibility or made an unauthorized payment to the borrower as defined in 34 CFR 685.214, ED discharges the obligation of the borrower (and any endorser) to make any further payments on the loan.

Laws & Regulations

- 34 CFR 685.212(e)
- 34 CFR 685.214

Failing to Refund Loan Proceeds

If a school fails to refund loan proceeds that it owes to ED or to the student's lender, ED will:

- discharge the borrower's liability on the loan (up to the amount of the unpaid refund) by repaying the loan and
- pursue any claim available to the borrower against the institution.

Other Provisions

If ED receives any payments on a loan after the date that the borrower became eligible for an ED-accepted discharge, ED returns those payments to the sender, or, for a discharge on the basis of death, the borrower's estate.

If a borrower's defaulted loans are discharged under these provisions, the borrower (if otherwise eligible) regains eligibility for Title IV federal student aid funds. ED reports the discharged loans to all credit-reporting agencies' records.

Laws & Regulations

- 34 CFR 685.212(f)

Loans For Parents: Direct PLUS Loans

Direct PLUS Loans are made to parents borrowing on behalf of their dependent undergraduate children who are enrolled at least half time in an eligible program of study.

Take a Look

See Chapter 5 for details about eligibility requirements for parents.

Many of the Direct PLUS Loan components are the same as the components for all Direct Loans. They are:

- late charges,
- collection charges,
- prepayment, and
- discharged loans.

Take a Look

- See page 2-13 for details about late charges, collection charges, and prepayment.
- See page 2-29 for details about discharged loans.

Descriptions of these features are in the "Loans for Students" section of this chapter and won't be repeated in this section. This section will focus on the following topics specific to Direct PLUS Loan:

- loan fees,
- loan limits,
- interest rates,
- grace period,
- repayment,
- deferment, and
- forbearance.

Loan Fees

Take a Look

- See page 2-12 for details about loan fees for Direct Loans for students.
- See Chapter 8 for details about adjusting Direct Loan amounts.

ED charges a loan fee of 4 percent of the principal amount of the loan on all Direct PLUS Loans. This fee is deducted from the loan proceeds through prorated amounts taken from each disbursement of the loan.

If a school cancels a Direct PLUS Loan (adjusts it downward to $0) or a portion of the loan amount is adjusted downward to comply with the HEA or with applicable regulations, ED eliminates or reduces the loan fee that pertains to the downward-adjusted portion of the disbursement.

Loan Limits

Laws & Regulations

- HEA, Title IV, Part D

Direct PLUS Loans do not have fixed annual or aggregate loan limits. Instead, a parent may borrow any amount up to his or her child's (dependent student's) cost of attendance (COA) minus other financial aid, which is referred to as estimated financial assistance (EFA).

In general, EFA includes most grants, loans, and need-based assistance received by a student or parent on behalf of a student for a period of enrollment. However, EFA does *not* include:

Cost of Attendance (COA)
– Estimated Financial Assistance (EFA)
= Maximum Direct PLUS Loan Amount

- Direct PLUS Loan amounts,
- Direct Unsubsidized Loan amounts,
- nonfederal loan amounts, or
- Federal Perkins Loan and Federal Work-Study funds that the student declined.

The formula for calculating how large a Direct PLUS Loan a parent can borrow works like this:

- If a student's COA for an academic year is $8,000 and he or she is not going to receive financial aid from any source for that year, the parent's maximum Direct PLUS Loan amount for the year is $8,000.
- If the student receives financial aid that qualifies to be a part of the EFA, the Direct PLUS Loan amount is reduced by the amount of the financial aid.
- The chart below illustrates these examples.

Example

	Student A	Student B	Student C
Cost of Attendance (COA)	$8,000	$8,000	$8,000
Estimated Financial Assistance (EFA)	$ 0	$2,500	$8,000
Maximum Direct PLUS Loan Amount	$8,000	$5,500	$ 0

The maximum aggregate Direct PLUS Loan parents may borrow for a student may not be greater than the student's COA minus EFA for the student's entire period of enrollment.

Interest Rates

Laws & Regulations

- HEA, Title IV, Section 455(b)

The interest rate on Direct PLUS Loans is variable on an annual basis, but it is capped at 9 percent. This means that the interest rate on Direct PLUS Loans can change from year to year but will not go above 9 percent.

The rate is determined on June 1 each year and applies to the subsequent 12-month period from July 1 to June 30. For July 1, 1999 to June 30, 2000, the interest rates for Direct PLUS Loans first disbursed on or after July 1, 1998 is 7.72 percent.

The formula that ED uses to calculate the interest rate is in the HEA.

- The formula starts with the bond equivalent rate of 91-day Treasury bills auctioned at the final auction before June 1.
- To this "average" Treasury-bill rate, ED then adds an additional percentage (3.1 percent).
- The sum results in the interest rate for Direct PLUS Loans for the year.

For Your Information

July 1, 1999- June 30, 2000 interest rates on Direct PLUS Loans for:

- Loans first disbursed on or after July 1, 1998—7.72%
- Loans first disbursed before July 1, 1998—7.98%

From time to time, Congress has enacted changes to the HEA that affect the formula. As a result, not all Direct PLUS Loans have the same interest rate (although the interest rate cap has always been 9 percent since the Direct Loan Program began in 1994).

- For Direct PLUS Loans first disbursed on or after July 1, 1998, the interest rate equals the bond equivalent rate of 91-day Treasury bills auctioned at the final auction before June 1 plus 3.1 percent.
- For Direct PLUS Loans first disbursed before July 1, 1998, the interest rate equals the bond equivalent rate of 52-week Treasury bills auctioned at the final auction before June 1 plus 3.1 percent.

Interest is charged on Direct PLUS Loans over the life of the loan, that is, from the date the disbursement is made to the date the loan is repaid in full.

- There is no interest subsidy for Direct PLUS Loan borrowers. This means that ED never pays for any interest that accrues on Direct PLUS Loans.
- As a result, the borrower is responsible for all interest that accrues over the life of the loan. This includes a student's in-school period and a parent-borrower's deferment periods.

- Interest accrues (accumulates) during a Direct PLUS Loan's deferment and forbearance periods, and accrued interest is capitalized (added to the loan principal) when the period ends.

Grace Periods

Unlike Direct Loans for students (Direct Subsidized Loans and Direct Unsubsidized Loans), Direct PLUS Loans for parents do not provide borrowers with a grace period.

Take a Look

See page 2-15 for details about grace periods for Direct Loans for students.

Repayment

The timing for parents repaying Direct PLUS Loans and the repayment plans available are somewhat different from Direct Subsidized Loans and Direct Unsubsidized Loans.

Repayment Period

The repayment period for a Direct PLUS Loan begins on the day the loan is fully disbursed. This is the day the last loan disbursement is made. Parent borrowers then begin repaying principal and interest on their Direct PLUS Loans. The first payment is due within 60 days after the start of the repayment period. In most cases, parents begin repaying their Direct PLUS Loans while the students for whom they borrowed are still in school.

If, after a Direct PLUS Loan is disbursed, a student enrolls less than half time or does not enroll at all during the period for which the Direct PLUS Loan was intended, the entire amount of the loan is due immediately.

- The parent is responsible for notifying ED of the date that the student ceased to be enrolled at least half time.

- The school also must promptly inform ED when the student is no longer enrolled at least half time. (Chapter 11, which focuses on Student Status Confirmation Report [SSCR] requirements, addresses schools' responsibilities in this area.)

Take a Look

See Chapter 11 for details about reporting enrollment status changes to ED.

Repayment Plans

Laws & Regulations

- 34 CFR 685.208(a)(2)

Take a Look

See page 2-19 for details about these repayment plans.

Direct PLUS Loan parent borrowers may choose from four repayment plans that are also available to Direct Subsidized Loan and Direct Unsubsidized Loan borrowers. These plans, which are described earlier in this chapter, consist of:

- the Standard Repayment Plan,
- the Extended Repayment Plan,
- the Graduated Repayment Plan, and
- the Alternative Repayment Plan.

Parent borrowers may not use the Income Contingent Repayment Plan to repay their Direct PLUS loans.

Deferment

Direct PLUS Loan deferments refer to periods during which payments of principal are postponed. Nonetheless, interest accrues (accumulates) and is charged to parent borrowers. During deferment periods, Direct PLUS Loan borrowers may choose either to pay the interest or to have it capitalized (added to their loan principal).

Take a Look

See pages 2-15 for details about the types of Direct Loan deferments.

Direct PLUS Loan borrowers are eligible for the same deferments as borrowers of Direct Subsidized Loans and Direct Unsubsidized Loans. These are described earlier in this chapter and consist of deferments for:

- in-school student status,
- study in an eligible fellowship program,
- study in an approved rehabilitation training program,
- participation in a dental residency program,
- seeking full-time employment, and
- economic hardship.

In most cases, the condition that defines the authorized deferments must apply to the parent borrower, not the student. For example, a Direct PLUS Loan borrower can receive a deferment if he or she is enrolled at least half time in a program of study at an eligible school. A Direct PLUS Loan borrower cannot qualify for an in-school deferment on the basis of his or her dependent student's half-time enrollment.

For example, a Direct PLUS Loan borrower who, when applying for his or her first Direct Loan, had outstanding balance or principal or interest on a FFEL Program loan that was made, insured, or guaranteed before July 1, 1993 may also be eligible for a deferment while the dependent student is:

- enrolled at least half time and has received a Direct Loan or FFEL Program loan for that period of enrollment;
- engaged in a full-time graduate fellowship program; or
- engaged in a full-time rehabilitation program for individuals with disabilities.

To receive a deferment, Direct PLUS Loan borrowers must request—and be granted—a deferment by ED. Borrowers make the request through ED's Direct Loan Servicing Center (DLSC). Borrowers should continue making loan payments until they receive their approval for deferment.

Forbearance

Forbearance refers to periods in which borrowers are allowed to stop making payments temporarily, extend the time for making payments, or temporarily make smaller payments than previously scheduled. The circumstances for which Direct PLUS Loan parent borrowers can obtain forbearance are the same as for Direct Subsidized Loans and Direct Unsubsidized Loans and are covered earlier in this chapter.

Take a Look

See page 2-27 for details about forbearance.

Direct Consolidation Loans

Direct Consolidation Loans allow borrowers to combine one or more of their federal education loans. This new loan repays each previous loan, leaving the borrower with one loan and one monthly payment. Borrowers who obtain Direct Consolidation Loans may extend their repayment period. Extending the repayment period reduces monthly payments, but it also increases the amount of interest borrowers pay over the life of the loan. This increases the total amount to be repaid.

Laws & Regulations

- 34 CFR 685.215

Direct Consolidation Loan Categories

Direct Subsidized Consolidation Loans

The following loans can be combined into one Direct Subsidized Consolidation Loan:

- Direct Subsidized Loans
- Subsidized Federal Stafford Loans
- Guaranteed Student Loans (GSLs)
- Federal Insured Student Loans (FISLs)
- Federal Perkins Loans
- National Direct Student Loans
- National Defense Student Loans
- Subsidized Federal Consolidation Loans
- Other Direct Subsidized Consolidation Loans

Direct Unsubsidized Consolidation Loans

The following loans can be combined into one Direct Unsubsidized Consolidation Loan:

- Direct Unsubsidized Loans
- Federal Unsubsidized Stafford Loans
- Federal Supplemental Loans for Students (SLS)
- Auxiliary Loans to Assist Students (ALAS)
- Health Professions Student Loans (HPSLs)
- Health Education Assistance Loans (HEALs)
- Loans for Disadvantaged Students (LDS)
- Nursing Student Loans (NSLs)
- Unsubsidized Federal Consolidation Loans
- Other Direct Unsubsidized Consolidation Loans

Direct PLUS Consolidation Loans

- Direct PLUS Loans
- Federal PLUS Loans
- other Direct PLUS Consolidation Loans

Nonfederal education loans are not eligible for consolidation in the Direct Loan Program. Sources of nonfederal loans include states, schools, and private organizations.

Borrowers generally seek Direct Consolidation Loans after leaving school. This is referred to as "regular" consolidation.

"In-school consolidation" is available, but a borrower who is in school may consolidate only Direct Loans and FFEL Program loans. In addition to regular consolidation requirements, in-school consolidation is limited to borrowers who:

- if attending a Direct Loan school, consolidate at least one fully disbursed Direct Loan or FFEL Program loan that is in an in-school period.
- if attending a non-Direct Loan school, have at least one Direct Loan and consolidate at least one fully disbursed Direct Loan or FFEL Program loan that is in an in-school period.

Generally, a student loan is considered to be in an-school period from the time the loan is fully disbursed until the borrower ceases to be enrolled on at least a half-time basis.

There are three categories of Direct Consolidation Loans:

- Direct Subsidized Consolidation Loans, which are for subsidized federal student loans authorized in Title IV of the HEA;
- Direct Unsubsidized Consolidation Loans, which are for unsubsidized federal student loans authorized in Title IV of the HEA and federal student loans authorized in Titles VII and VIII of the Public Health Service Act; and
- Direct PLUS Consolidation Loans, which are for federal parent loans authorized in Title IV of the HEA (Direct PLUS Loans and Federal PLUS Loans).

The specific types of federal loans that borrowers can consolidate under each type of Direct Consolidation Loan are shown in the chart on the previous page.

Borrowers must apply to ED's Loan Origination Center (LOC) for Direct Consolidation Loans.

- A single application is used, even if the borrower is consolidating more than one type of loan, such as subsidized student loans and unsubsidized student loans or subsidized student loans and parent loans.
- Borrowers may add eligible loans to a Direct Consolidation Loan by submitting a request to ED within 180 days after the consolidation loan is originated.

For Your Information

ED is planning to offer a 0.6 percentage point reduction for student borrowers who consolidate their Direct Loans while they are in school or during the grace period before they enter loan repayment.

Laws & Regulations

- 34 CFR 685.215(b) & (c)

Laws & Regulations

- 34 CFR 685.215(e)

Take a Look

See page 2-38 for a chart that shows Direct Consolidation Loan categories.

Even if a borrower has loans from more than one of the categories listed in the chart on the page 2-38, he or she still has only one Direct Consolidation Loan and makes just one payment.

Borrowers must consolidate at least one Direct Loan or FFEL Program loan. However, borrowers are not required to consolidate all their outstanding federal education loans.

- For example, a borrower may choose not to consolidate a loan with a very low interest rate that is likely to remain lower than the interest rate on Direct Consolidation Loans.

As noted earlier, nonfederal education loans cannot be included in a Direct Consolidation Loan.

Loan Limits

There are no minimum or maximum loan limits for a Direct Consolidation Loan. The initial principal balance of a Direct Consolidation Loan is equal to the sum of the amounts paid by ED to the holders of loans being consolidated. ED pays each holder the amount necessary to pay off the loan to be consolidated.

Laws & Regulations

- 34 CFR 685.203(i)

Consolidating federal education loans does not increase the borrower's loan limits for Direct Subsidized Loans or Direct Unsubsidized Loans. That is, the aggregate limit (or sum total) for both undergraduate and graduate/professional students must include any portion of a borrower's Direct Consolidation Loan that was used to repay a Direct Subsidized Loan or Direct Unsubsidized Loan. Thus, consolidating a student's loans does not increase the student's loan limits.

Interest Rates

Some Direct Consolidation Loans have fixed interest rates. That is, ED establishes the interest at the time of consolidation and the interest rate remains the same until the Direct Consolidation Loan is repaid. Other Direct Consolidation Loans have variable interest rates. ED adjusts these interest rates on an annual basis.

Calculating Interest Rates

The different types of interest rate calculations are a result of changes to interest rate formulas in the HEA. The most recent change occurred with the 1998 reauthorization of the HEA, when Direct Consolidation Loans became fixed interest rate loans.

Laws & Regulations

- HEA, Title IV, Section 455(b)

Direct Consolidation Loans with Fixed Interest Rates

Interest rates are fixed on Direct Consolidation Loans for which ED receives applications on or after February 1, 1999. The interest rate is equal to the lesser of:

- the weighted average of the interest rates of the loans that the borrower is consolidating, rounded up to the nearest one-eighth of one percent; or
- 8.25 percent.

This formula applies to all three categories of Direct Consolidation Loans.

At the time of loan certification, ED calculates the interest rate for a borrower requesting a Direct Consolidation Loan. That interest rate remains in effect until the loan is repaid in full.

Direct Consolidation Loans with Variable Interest Rates

Direct Consolidation Loans for which ED received applications before February 1, 1999 have a variable interest rate. The interest rate is determined on June 1 each year and applies to the subsequent period from July 1 to June 30.

The formula that ED uses to calculate Direct Consolidation Loan interest rates is in the HEA and regulations.

Laws & Regulations

- HEA, Title IV, Section 455(b)
- 34 CFR 685.215(g)

- The formula starts with the bond equivalent rate of Treasury bills auctioned at the final auction before June 1.
- To this "average" Treasury-bill rate, ED then adds an additional percent.
- The sum results in the interest rate for Direct Consolidation Loans for the year.

Where to Call

- The LOC at 1-800-557-7392.
- LOC's TDD at 1-800-557-7395.

As the following chart shows, ED uses variations on this formula to calculate interest rates for Direct Consolidation Loans that are not eligible for fixed interest rates.

- The LOC is available to answer questions about Direct Consolidation Loan interest rates.

Federal Direct Loan Consolidation Loan Interest Rates

If a Direct Consolidation Loan...	the interest rate will be...	and during...	Student Loan Portions[1]	Parent Loan Portion[2]
			the interest rate will be...	
was first disbursed before 7/1/98	adjusted each July 1	Repayment	91-day Treasury bill rate + 3.1% (7.72% through 6/30/2000)	52-week Treasury bill rate + 3.1% (7.98% through 6/30/2000)
		In-school, grace, deferment	91-day Treasury bill rate + 2.5% (7.12% through 6/30/2000)	52-week Treasury bill rate + 3.1% (7.98% through 6/30/2000)
application was received before 10/1/98 and the loan is first disbursed on or after 7/1/98	adjusted each July 1	Repayment	91-day Treasury bill rate + 2.3% (6.92% through 6/30/2000)	91-day Treasury bill rate + 3.1% (7.72% through 6/30/2000)
		In-school, grace, deferment	91-day Treasury bill rate + 1.7% (6.32% through 6/30/2000)	91-day Treasury bill rate + 3.1% (7.72% through 6/30/2000)
application was received between 10/1/98 and 1/31/99	adjusted each July 1	All periods	91-day Treasury bill rate + 2.3% (6.92% through 6/30/2000)	91-day Treasury bill rate + 2.3% (6.92% through 6/30/2000)[1]
application is received on or after 2/1/99	fixed for life of the loan	All periods	Weighted average of interest rates on loans being consolidated, rounded up to nearest one-eighth of one percent	Weighted average of interest rates on loans being consolidated, rounded to up nearest one-eighth of one percent[1]

Footnotes

1. Will not exceed 8.25%.
2. Will not exceed 9% except where noted.

Charging Interest

For Direct Subsidized Consolidation Loans, ED *does not* charge interest while borrowers are in an in-school period, grace period, or deferment period. ED charges interest during all other periods, that is, during repayment periods and forbearance periods.

For Direct Unsubsidized Consolidation Loans and Direct PLUS Consolidation Loans, ED *does* charge interest over the entire life of the loan. This includes in-school periods, grace periods, deferment periods, forbearance periods, and repayment periods.

Loan Fees

Borrowers are not charged a loan fee for consolidating their loans. However, if borrowers do not pay on time, they may be responsible for other costs.

Late Charges

ED can charge late fees on installment payments that borrowers do not pay within 30 days of the due date. Currently, ED is not charging late fees.

Laws & Regulations

- 34 CFR 685.202(d)

Collection Charges

On Direct Consolidation Loans that are in default, ED can require borrowers or endorsers to pay additional costs. These include reasonable collection fees and costs, court costs, and attorney's fees associated with collecting the debt. ED may require borrowers or endorsers who are delinquent on their payments—but not in default—to pay collection charges.

Laws & Regulations

- 34 CFR 685.202(e)

Take a Look

See page 2-13 for details on collection charges for delinquent loans that are not in default.

Laws & Regulations

- 34 CFR 685.211(a)

Take a Look

See page 2-13 for details about prepayment.

Prepayment

Borrowers are allowed to prepay their Direct Consolidation Loans without paying an additional charge. How ED handles prepayments from borrowers is described earlier in this chapter.

Laws & Regulations

- 34 CFR 685.215(i)(4)

Grace Period

Most Direct Consolidation Loans do not have a grace period. There is an exception for borrowers who obtain an "in-school" Direct Consolidation Loan.

- In these cases, a Direct Consolidation Loan has a six-month grace period that begins the day after the student ceases to be enrolled at least half time at an eligible school.
- The initial grace period does not end until the consolidation borrower ceases to be enrolled at least half time for a continuous period of six months. A borrower who returns to school on at least a half-time basis before completing the initial grace period is entitled to a full initial grace period, calculated as six consecutive months, from the date that he or she drops below half-time enrollment again.

Laws & Regulations

- 34 CFR 685.204

Take a Look

- See page 2-15 for details about deferments on Direct Subsidized Loans and Direct Unsubsidized Loans.
- See page 2-36 for details about deferments on Direct PLUS Loans.

Deferment

Direct Consolidation Loan borrowers are eligible for the same deferment opportunities that are available to borrowers of other Direct Loans. These deferments are presented earlier in this chapter.

- Direct Subsidized Consolidation Loans and Direct Unsubsidized Consolidation Loans have the same deferments as Direct Subsidized Loans and Direct Unsubsidized Loans.
- Direct PLUS Consolidation Loans have the same deferments as Direct PLUS Loans.
- Direct Consolidation Loan borrowers may also be eligible for the same deferments that they carried on underlying FFEL Program loans that were included in the consolidation. A borrower who asks for information about Direct Consolidation Loans is sent a

consolidation package with a copy of ED's *Federal Direct Consolidation Loans*. A chart in the publication lists these deferments.

There are two important facts about deferment on Direct Consolidation Loans.

- If a borrower consolidates a loan that is in deferment, the borrower has to reapply for the deferment once the loan has been consolidated.
- For married borrowers with joint Direct Consolidation Loans, ED only grants deferments if both borrowers are eligible for deferment. If not, monthly payment installments continue to be due and payable.

Repayment

A "regular" Direct Consolidation Loan's repayment period begins on the day the loan is disbursed. The first payment is due within 60 days of disbursement.

If a borrower receives an "in-school" Direct Consolidation Loan, the repayment period begins the day after the grace period ends. To avoid cutting short a grace period, borrowers with loans in a grace period should wait until the last two months of the grace period before submitting a Direct Consolidation Loan application.

Repayment Plans

Direct Consolidation Loan borrowers may choose one of five available repayment plans, depending on the type of loan they are repaying. The available repayment plans are:

- the Standard Repayment Plan,
- the Extended Repayment Plan,
- the Graduated Repayment Plan,
- the Income Contingent Repayment Plan, and
- the Alternative Repayment Plan.

Reference

- *Federal Direct Consolidation Loans*

Laws & Regulations

- 34 CFR 685.215(h)

Take a Look

See page 2-19 for details about repayment plans.

All five repayment plans are available to borrowers of Direct Subsidized Consolidation Loans and Direct Unsubsidized Consolidation Loans.

- Direct PLUS Consolidation Loan borrowers may not choose the Income Contingent Repayment Plan.

In general, borrowers must repay all their loans under the same repayment plan. However, borrowers repaying both parent loans and their own student loans may repay them under different loan plans. For example, a borrower may choose to repay her student loans under the Income Contingent Repayment Plan and her Direct PLUS Loans under the Extended Repayment Plan.

- Borrowers in this situation still receive one monthly statement and make one monthly payment.
- The DLSC monitors and updates all balance activity on borrowers' accounts.

Switching Repayment Plans

Take a Look

See page 2-25 for details about the repayment period being recalculated after switching to the Income Contingent Repayment Plan.

Direct Loan borrowers sometimes decide that their repayment plan no longer meets their needs. A borrower can switch plans at any time as long as the maximum repayment period for the new plan is longer than the amount of time the borrower's loan has already been in repayment under the previous plan(s). A borrower may switch to the Income Contingent Repayment Plan at any time, but the repayment period may be recalculated. ED must approve all repayment plan changes.

There is an exception for borrowers with defaulted loans.

Consolidating Defaulted Loans

Laws & Regulations

- 34 CFR 685.215(d)(2)(ii)(E)

Borrowers may consolidate defaulted federal education loans, if, in addition to meeting other requirements, they:

- have made satisfactory repayment arrangements to repay their defaulted loan or
- agree to repay the loan under the Income Contingent Repayment Plan and sign a consent form allowing the Internal Revenue Service (IRS) to release certain income information to ED.

A borrower who agreed to repay under the Income Contingent Repayment Plan to consolidate defaulted loans may not change to another repayment plan unless he or she:

- was required to and made payments under the Income Contingent Repayment Plan in each of the prior three months; or
- was not required to make payments, but made three reasonable and affordable payments in each of the prior three months.

Married Borrowers

Married borrowers may consolidate their federal education loans into one Direct Consolidation Loan if they meet the regulatory requirements. Some of the requirements apply to at least one spouse. Other provisions apply to both spouses.

Laws & Regulations

- 34 CFR 685.215(l)

Requirements that Apply to One Spouse

At least one spouse must have either an outstanding balance on a Direct Loan or an outstanding balance on an FFEL Program loan and assert that:

- he or she is unable to obtain a FFEL Program consolidation loan or
- he or she is unable to obtain an FFEL Program consolidation loan with acceptable income-sensitive repayment terms and is eligible for the Income Contingent Repayment Plan under the Direct Loan Program.

If a Direct Consolidation Loan includes a federal parent loan, at least one spouse must not have an adverse credit history.

- In these cases, borrowers have the option to appeal an adverse credit history to ED on the basis of extenuating circumstances or, alternatively, obtain a creditworthy endorser.

Take a Look

See Chapter 5 for details about adverse credit.

Requirements that Apply to Both Spouses

Both spouses must:

- meet remaining eligibility criteria for consolidation, including in-school requirements (if the loan is an in-school consolidation) and
- agree to be held jointly and severally liable for repaying the total amount of the consolidation loan and to repay the loan regardless of any change in marital status.

A spouse is obligated to repay a joint Direct Consolidation Loan, even if the other spouse:

- dies,
- becomes totally and permanently disabled,
- has collection of loan obligation stayed by a bankruptcy filing,
- has a loan obligation discharged in bankruptcy, or
- refuses to pay.

Both spouses must meet deferment/forbearance eligibility requirements to be approved for deferments/forbearance.

Closed-School and False-Certification Discharges

Both spouses do not have to qualify for cancellation on the basis of closed-school, false-certification, or failure of a school to refund loan proceeds provisions. In these instances, however, ED cancels only the portion of the consolidation loan equal to the amount of the loan that would have been eligible for discharge.

Consolidating Parent Loans

Borrowers applying for Direct PLUS Consolidation Loans are subject to a credit check. Borrowers with adverse credit histories are ineligible. However, they still may be able to obtain a Direct PLUS Consolidation Loan by providing documentation of extenuating circumstances or by obtaining an endorser with a good credit history.

In the case of borrowers who are in default on federal parent loans, they may still be eligible for Direct PLUS Consolidation Loans by making satisfactory repayment arrangements with the holders of their defaulted loans.

Forbearance

Direct Consolidation Loan borrowers have the same forbearance options as borrowers who have other Direct Loans. Forbearance is discussed earlier in this chapter.

Take a Look

See page 2-27 for details about forbearance.

Discharge

Direct Consolidation Loans have the same discharge provisions as all Direct Loans, except that in some cases joint consolidation borrowers must *both* meet the discharge criteria to qualify (this is discussed on the previous page).

Take a Look

See page 2-29 for details about discharged loans.

Holder Responsibilities

Holders of loans that borrowers are consolidating into a Direct Consolidation Loan must certify the amount of those loans. Holders must forward certifications to ED within 10 business days of receiving ED's request. If a holder is unable to provide a certification, it must provide ED with a written explanation for not forwarding the information.

Laws & Regulations

- 34 CFR 685.215(f)

When a holder receives proceeds of a Direct Consolidation Loan from ED, it must apply the proceeds promptly to fully pay off the loan(s) being consolidated.

Laws & Regulations

- 34 CFR 685.215(k)

- If the amount paid by ED is greater than the amount owed, the holder must refund the excess to ED. ED, in turn, uses the returned amount to reduce the borrower's outstanding Direct Consolidation Loan balance.

- If the amount paid by ED to a holder is not enough to pay off the loan being consolidated, the holder must notify ED in writing of the amount due so ED can pay the remainder.
    - To help with consolidation, tolerance amounts may apply when processing overpayments and underpayments.
- As part of this process, holders are responsible for notifying borrowers that their loans have been paid off.

Returned Funds From Schools

If a holder of a loan that has been consolidated receives returned funds from a school (previously referred to as a refund) on that loan, the holder must forward these funds to ED within 30 days of receipt. The holder must include an explanation of the source of the funds. ED applies the money to the borrower's outstanding Direct Consolidation Loan balance.