



DCL ID: FP-06-10

Date: June 2, 2006

Subject: Special Allowance Payments for FFEL PLUS Loans

Summary: This letter provides guidance to FFEL lenders on billing for and the payment of special allowance for certain FFEL PLUS Loans.

References: DCL FP-06-04

Dear Colleague:

In Dear Colleague Letter FP-06-04 (March 30, 2006), we issued guidance implementing certain lender-related provisions of the Higher Education Reconciliation Act of 2005 (HERA), Pub. L. 109-171. Some of those provisions impact the payment of special allowance to FFEL lenders and the quarterly reporting by lenders to the Department of Education on the Lender's Interest and Special Allowance Request and Report (LaRS). This letter provides guidance about the payment of special allowance for certain PLUS loans affected by the HERA legislation.

Prior to the HERA, and pursuant to section 438(b)(2)(I)(v) of the Higher Education Act (HEA), special allowance payments were not made on PLUS loans that were disbursed on or after January 1, 2000 and before July 1, 2006 for any 12-month period beginning July 1, unless the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to the previous June 1, plus 3.10 percent, exceeded 9.0 percent. Similarly, under section 438(b)(2)(I)(vii) of the HEA, special allowance payments would not be made on PLUS loans disbursed on or after July 1, 2006 during any 12-month period beginning July 1, where the average of the bond equivalent rates of the quotes of the 3-month commercial paper (financial), for the last calendar week ending on or before that July 1, plus 2.64 percent, exceeded 9.0 percent.

These limitations on the payment of special allowance for PLUS loans have been eliminated by the HERA. Therefore, consistent with the provisions of the HERA, lenders may receive special allowance payments on PLUS loans that were first disbursed on or after January 1, 2000 and before July 1, 2006, for periods beginning April 1, 2006. The first special allowance payments for these loans will be for the second quarter of calendar year 2006 (April 1, 2006 through June 30, 2006). Lenders may submit billings for these payments on or after July 1, 2006. Also, as noted in the earlier Dear Colleague Letter (FP-06-04), beginning with the quarter ending September 30, 2006, PLUS loans first disbursed on or after July 1, 2006 will be eligible for special allowance.

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For PLUS loans first disbursed on or after January 1, 2000 and before April 1, 2006, lenders must continue to report to the Department on LaRS using special allowance category code "CD". For PLUS loans first disbursed on or after April 1, 2006, lenders must use the new special allowance category code "CH".

For tax-exempt PLUS loans first disbursed on or after January 1, 2000 and before April 1, 2006, instead of using the special allowance category code "XH" lenders must use a new special allowance category code "XQ". Lenders that are unable to modify their systems by the time they are ready to submit their quarterly billing in July, 2006 may continue to report these loans as "XH". However, for the quarterly billing immediately following the lender's ability to report using the new "XQ" code, any earlier reported "XH" loans must be reversed and reported as a "XQ". For tax-exempt PLUS loans first disbursed on or after April 1, 2006, lenders must use the new special allowance category code "XP".

If you have any questions on the information provided in this letter, please send all inquiries to 'angela.roca-baker@ed.gov'.

Sincerely,

A handwritten signature in black ink, appearing to read "Matteo Fontana". The signature is fluid and cursive, with a long horizontal stroke at the end.

Matteo Fontana
General Manager, FSA Financial Partners Services