UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF POSTSECONDARY EDUCATION
THE ASSISTANT SECRETARY

January 18, 2012

GEN-12-01

Subject: Changes Made To The Title IV Student Aid Programs By The Recently Enacted Consolidated Appropriations Act, 2012.

Summary: The purpose of this letter is to provide institutions and Federal Family Education Loan (FFEL) program participants with information on changes made to the Title IV student assistance programs by Section 309 of the Department of Education Appropriations Act, 2012 (Title III of Division F of the Consolidated Appropriations Act, 2012 - Public Law 112-74).

Dear Colleague:

On December 23, 2011, President Obama signed into law the Consolidated Appropriations Act, 2012 (Public Law 112-74). The new law significantly impacts the Federal student aid programs authorized under Title IV of the Higher Education Act of 1965, as amended (HEA). This letter provides information on the changes made to the Title IV student aid programs by Public Law 112-74 and the effective date of those changes.

- Auto-Zero EFC Income Threshold - Public Law 112-74 amended HEA section 479(c) to reduce the income threshold for an automatic zero expected family contribution (EFC) from $30,000 to $23,000 for the 2012-2013 award year for both dependent and independent students. Because of statutorily required cost of living updating, the threshold for 2012-2013 was scheduled to be $32,000, but now will be $23,000. The *FAFSA on the Web* application and the Central Processing System (CPS) have been updated, and both began 2012-2013 FAFSA processing on January 1, 2012, using $23,000 as the auto-zero EFC threshold.

- Ability-to-Benefit - Public Law 112-74 amended HEA section 484(d) to eliminate Federal student aid eligibility for students without a "certificate of graduation from a school providing secondary education or the recognized equivalent of such a certificate." The law makes an exception for students who have completed a secondary school education in a home school setting that is treated as a home school or private school under State law.

  Therefore, students who do not have a high school diploma or a recognized equivalent (e.g.,GED), or do not meet the home school requirements, and who first enroll in a program of study on or after July 1, 2012, will not be eligible to receive Title IV student aid. Students will qualify for Title IV student aid under one of the ability-to-benefit (ATB) alternatives if the student was enrolled in a Title IV eligible program prior to July 1, 2012. Those alternatives include the student passing an independently administered, approved ATB test or successfully completing at least six credit hours or 225 clock hours of postsecondary education.

We note that this change does not affect students with intellectual disabilities who are enrolled in approved Comprehensive Transition and Postsecondary Programs. Students who enroll in such programs remain eligible for Title IV assistance from the Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, and Federal Work Study programs even if they do not have a high school diploma or its recognized equivalent.

As noted, the elimination of ATB alternatives to a high school diploma (or recognized equivalent) applies to students who first enroll in a program of study on or after July 1, 2012. Therefore, a student who does not possess a high school diploma, or a recognized equivalent, but who is, or was, enrolled in a Title IV eligible program anytime prior to July 1, 2012, may be eligible to receive Title IV student assistance under the ATB alternatives. We will provide additional guidance on the implementation of this change in a forthcoming communication, including examples of the conditions under which a student who was enrolled prior to July 1, 2012, may establish eligibility under the ATB alternatives.

Finally, the HEA continues to provide that for an institution to qualify as an eligible institution, it may admit as regular students only students with a high school diploma or the recognized equivalent of a high school diploma, or students who are home-schooled or who are beyond the age of compulsory attendance.

- 2012-2013 Federal Pell Grant Amounts - Public Law 112-74 included funds to establish the maximum Federal Pell Grant award for the 2012-2013 Award Year at $4,860. However, HEA section 401 (b)(7) provides for an automatic increase to the appropriated Federal Pell Grant maximum award for 2012-2013 of $690, resulting in a 2012-2013 maximum award of $5,550. 2012-2013 Federal Pell Grant Payment schedules were posted to our Information for Financial Aid Professionals Web site on January 12, 2012.

- Minimum Federal Pell Grant Award and Maximum EFC - Public Law 112-74 amended HEA section 401(b)(4) to change the minimum Federal Pell Grant award calculation. Specifically, the new law establishes the minimum Federal Pell Grant award for a student at ten percent of the maximum award amount for the award year. In addition, it eliminates the provision that permitted a student who would be eligible to receive a Federal Pell Grant of between five and ten percent of the award year's maximum award to receive an award of ten percent of the maximum award. Therefore, beginning with the 2012-2013 award year, students will not receive a Federal Pell Grant if they are not eligible for at least ten percent of the maximum award for the academic year. This change in the calculation of the minimum award amount results in 4995 being the maximum EFC enabling a student to be eligible to receive a 2012-2013 Federal Pell Grant.

- Federal Pell Grant Duration of Eligibility - Public Law 112-74 amended HEA section 401(c)(5) to reduce the duration of a student's eligibility to receive a Federal Pell Grant from 18 semesters (or its equivalent) to 12 semesters (or its equivalent). This provision applies to all Federal Pell Grant eligible students effective with the 2012-13 award year. The calculation of the duration of a student's eligibility will include all years of the student's receipt of Federal Pell Grant funding. This change in the duration of students' Federal Pell Grant eligibility is not limited only to students who received their first Federal Pell Grant on or after the 2008-2009 award year, as the HEA previously provided when the duration of eligibility was 18 semesters.

We will calculate the equivalency by adding together each of the annual percentages of a student's scheduled award that was actually disbursed to the student. For example, a student whose 2011-2012 Federal Pell Grant scheduled award was $5,550, but who only received $2,775 because she was only enrolled for one semester, will have used 50% of that award year's scheduled award. Similarly, a student who was enrolled three-quarter time for the entire award year would have used 75% of his scheduled award.

We are currently evaluating the systems changes that will be needed to implement this new provision as well as how best to communicate to impacted students and their schools when the student has reached the 12 semester limit or is close to that limit.

- Grace Period Interest Subsidy - Public Law 112-74 amended HEA section 428(a)(3)(A)(i)(I) to temporarily eliminate the interest subsidy provided on Direct Subsidized Loans during the six month grace period provided to students when they are no longer enrolled on at least a half-time basis. This change will be effective for new Direct Stafford Loans for which the first disbursement is made on or after July 1, 2012, and before July 1, 2014.

- Calculation of Special Allowance Payments - Public Law 112-74 amended HEA section 438(b)(2)(I) to change the base on which special allowance payments (SAP) to lenders for Federal Family Education Loans is calculated from Commercial Paper to the London Inter Bank Offered Rate. This calculation change is effective for loans first disbursed on or after January 1, 2000. However, the change only applies if, by April 1, 2012, the loan holder (or the beneficial holder if the loan is held by an eligible lender trustee) provides the Secretary with a signed waiver of all contractual, statutory, and legal rights to a payment based on the SAP formula in place when the loan was made. The Department will develop and provide FFEL Program loan holders with the required waiver format early in 2012.

In the coming weeks, we will provide additional guidance on these issues, including information on changes to our systems and on reporting requirements. We thank you for your continued support to students who benefit from the Federal student aid programs, and for your service to students and their families.

Sincerely,

Eduardo M. Ochoa