



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF POSTSECONDARY EDUCATION

THE ASSISTANT SECRETARY

FEB 21 2012

GEN-12-04

Subject: Federal Student Loan Issues

Summary: This letter provides information about the change in the interest rate on Direct Subsidized Loans made to undergraduate students that will apply to new loans first disbursed on or after July 1, 2012. It also responds to questions from institutions about the continued eligibility of dependent undergraduate students to receive up to \$2,000 in additional Direct Unsubsidized Loan funds. Finally, this letter reminds institutions of upcoming changes made to the Direct Loan Program by the Budget Control Act of 2011.

Dear Colleague:

Under the College Cost Reduction and Access Act (CCRAA) (Public Law 110-84), signed into law on September 27, 2007, the interest rate on subsidized loans made to undergraduate students under the William D. Ford Federal Direct Loan (Direct Loan) Program and the Federal Family Education Loan (FFEL) Program was reduced in stages from 6.8 percent to the current 3.4 percent that applies to loans first disbursed on or after July 1, 2011, and before July 1, 2012. That reduced rate ends for loans first disbursed on or after July 1, 2012.

As a result, the interest rate for undergraduate students on new Direct Subsidized Loans first disbursed on or after July 1, 2012 will be a fixed interest rate of 6.8 percent, the interest rate in place at the time the CCRAA was enacted. This is the same interest rate that currently applies to Direct Subsidized Loans made to graduate students and to all Direct Unsubsidized Loans. This change does not affect the interest rates on Direct Subsidized Loans made to undergraduate students with first disbursement dates prior to July 1, 2012, or the interest rates on Subsidized Federal Stafford Loans made to undergraduate students prior to July 1, 2010 (the effective date for the termination of the authority to make new loans through the FFEL Program); the reduced fixed interest rates will continue to apply to these loans. In addition, if a borrower consolidates a Direct Subsidized Loan or Subsidized Federal Stafford Loan with a reduced fixed interest rate into the Direct Loan Program, the reduced interest rate will be used to calculate the weighted average fixed interest rate of the Consolidation Loan.

The interest rates on Title IV Federal student loans are set by law and cannot be changed by the U. S. Department of Education (the Department). President Obama, in his State of the Union Address on January 24, asked Congress to enact legislation to extend the current 3.4 percent interest rate for another year. It is important to remember that this is only a proposal at this time. Absent Congressional action, the interest rate will return to 6.8 percent on July 1, 2012, per the statute.

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Although the Department currently offers Direct Loan borrowers certain repayment incentives that may include a reduction in a loan's interest rate, the Department's authority to offer those incentives will end on July 1, 2012, as discussed below.

We continue to receive questions about whether the \$2,000 in additional Direct Unsubsidized Loan funds provided to dependent students under the Ensuring Continued Access to Student Loans Act remains available to those students. [See DCL GEN 08-08, June 19, 2008.] These questions apparently stem from the fact that the non-Title IV revenue (90/10) regulations for proprietary institutions of higher education at 34 CFR 668.28(a)(6) provided for temporary special treatment of this additional unsubsidized loan amount during the period July 1, 2008, through June 30, 2011. The additional unsubsidized loan amount for eligible dependent students will continue to be available and is not affected by the fact that the special treatment of these loan amounts for 90/10 purposes ended June 30, 2011.

Finally, we remind you that the Budget Control Act of 2011 (Pub. L. 112-25) made two important changes to the Direct Loan Program:

- *Effective for loans made for periods of enrollment (loan periods) beginning on or after July 1, 2012*, graduate and professional students are no longer eligible to receive Direct Subsidized Loans. Direct Subsidized Loans received by any student for loan periods beginning before July 1, 2012, for either graduate or undergraduate study, are not affected by this change. Note that it is the beginning date of the loan period that determines whether a graduate student can receive a subsidized loan, not the first disbursement date. For example, a graduate or professional student could receive a Direct Subsidized Loan for a loan period that begins in June 2012, even if the first disbursement of the loan is made on or after July 1, 2012.
- *Effective for loans first disbursed on or after July 1, 2012*, the law eliminates the authority of the Department to offer any repayment incentives to Direct Loan borrowers to encourage on-time repayment of loans, including any reduction in the interest rate or origination fee. As a result, the up-front interest rebate that has been provided to Direct Loan borrowers at the time of loan disbursement will not be offered on any Direct Loan with a first disbursement date that is on or after July 1, 2012. The law continues to authorize the Department to offer interest rate reductions to Direct Loan borrowers who agree to have payments automatically electronically debited.

We thank you for your continued cooperation as we work to administer and implement required changes in the Direct Loan Program and ensure the best service to students and families.

Sincerely,



Eduardo M. Ochoa