

GEN-13-22

October 11, 2013

Subject: FY 2014 Sequestration Changes to the Title IV Student Aid Programs

Summary: This letter provides information regarding sequester required changes to Iraq-Afghanistan Service Grant and TEACH Grant awards effective October 1, 2013. It also provides information on increased loan fees for Direct Loans with first disbursement dates on or after December 1, 2013.

Dear Colleague:

In a series of Electronic Announcements posted to IFAP last spring (March 1, 2013, March 15, 2013, April 5, 2013, April 26, 2013, and May 31, 2013), we provided information on the effect of the across-the-board budget cuts known as the sequester on the Federal student financial aid programs. Under the Budget Control Act of 2011, additional sequester funding reductions took effect with the start of the 2014 Federal fiscal year (FY 2014). The information in this Dear Colleague Letter applies to FY 2014 only and does not supersede last spring's posted guidance for loans and grants affected by the FY 2013 sequester.

As discussed in detail below, the sequester changes the amount of TEACH Grant and Iraq-Afghanistan Service Grant awards for FY 2014 and requires further increases to origination fees on Federal Direct Loans. Note that the sequester requirements discussed below are unrelated to the current temporary shutdown of the U.S. Department of Education due to lack of appropriations.

Federal Pell Grant Program

The Federal Pell Grant Program is exempted from the effects of the sequester, thus the 2013-2014 award year payment schedules that were attached to Dear Colleague Letter GEN-13-06 and posted to IFAP on January 30, 2013, remain in effect without any changes. Information about 2014-2015 award year Pell Grant payment amounts will not be available until a bill providing an appropriation for the program is enacted

Campus-Based Programs

The 2013-2014 award year campus-based allocations provided in an April 5, 2013 Electronic Announcement and supplemented by a September 25, 2013 Electronic Announcement, remain valid as those amounts were determined under the earlier sequestration requirements. At this time, we have no information about the sequester's impact on 2014-2015 award year campus-based allocations.

Iraq-Afghanistan Service Grants

The sequester changes, beginning on October 1, 2013, the percentage by which Iraq-Afghanistan Service Grant awards must be reduced as compared to the sequester percentage reduction that became effective last spring. Specifically, Iraq-Afghanistan Service Grant awards **where the first disbursement is made on or after October 1, 2013**, must be reduced by 7.2 percent from the original statutory amounts. Iraq-Afghanistan Service Grant awards, **where the first disbursement was made after March 1, 2013 and prior to October 1, 2013**, continue to be covered under the FY 2013 sequester and must be reduced by 10.0 percent from the original statutory award amount regardless of when any subsequent disbursement of the award is made. The attachment to this letter includes a table that summarizes this information.

TEACH Grants

The sequester changes, beginning on October 1, 2013, the percentage by which TEACH Grant awards must be reduced as compared to the sequester percentage reduction that became effective last spring. Specifically, TEACH Grant awards **where the first disbursement is made on or after October 1, 2013**, must be reduced by 7.2 percent from the original statutory amounts. TEACH Grant awards, **where the first disbursement was made after March 1, 2013 and prior to October 1, 2013**, continue to be covered under the FY 2013 sequester and must be reduced by 6.0 percent from the original statutory award amount regardless of when any subsequent disbursement of the award is made. The attachment to this letter includes a table that summarizes this information.

Direct Loans

As of October 1, 2013, the sequester increases the origination fees charged to Direct Loan borrowers beyond last year's increases. However, taking into account all of the underlying circumstances, including operational requirements, the new loan fee percentages will apply only with regard to loans **where the first disbursement is made on or after December 1, 2013**. The new loan fees are 1.072 percent for Direct Subsidized Loans and Direct Unsubsidized Loans and 4.288 percent for Direct PLUS Loans (both parent and graduate student PLUS Loans).

The loan fees on Direct Loans **where the first disbursement was or will be made on or after July 1, 2013 and prior to December 1, 2013** continue to be those noted in last spring's communications - 1.051 percent for Direct Subsidized and Direct Unsubsidized Loans and 4.204 percent for Direct PLUS Loans, regardless of when any second or subsequent disbursements are made. The attachment to this letter includes a table that summarizes this information.

The increased loan fee percentages must be applied to any loan disbursement for a loan where the first disbursement will be made on or after December 1, 2013. This includes loans that will be made for the remainder of the 2013-2014 academic year and loans that will be made for summer 2014. At this time, we have no information about the amount of the loan fees for Direct Loans that will be first disbursed on or after October 1, 2014.


As we noted in last spring's sequestration information announcements, both the Department and schools need time to modify systems and procedures to implement sequestration required changes in loans fees for the Direct Loan Program. Therefore, we have established **October 18, 2013** as the date when schools may begin submitting Direct Loan records to the COD System for loans where the first disbursement will be on or after December 1, 2013, (the loans with the higher loan fee amounts).

If a school has already submitted a Direct Loan record to the COD System for a loan where the first disbursement will be on or after December 1, 2013 (e.g., a spring term only loan), using last spring's sequestration loan fee percentages, the school must cancel that origination and resubmit a new origination on or after October 18, 2013 using the new loan fee percentages.

Of course, loans where the first disbursement was or will be made prior to December 1, 2013 that continue to have the 1.051 percent and 4.204 percent loan fee can be submitted to the COD System immediately and can continue to be submitted after December 1, 2013 with the lower fees.

We will provide updates to the information provided in this letter as necessary.

Sincerely,



Jeff Baker, Director
Policy Liaison and Implementation
Federal Student Aid

Attachment