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FEDERAL STUDENT AID

July 5, 2006

SUBJECT: Federal Family Education Loan Program Special Allowance Rates for the Quarter Ending June 30, 2006

The Treasury Department has published the average of the bond equivalent rates of the ninety-one day Treasury bills auctioned during the quarter ending **June 30, 2006**, as **4.83** percent. Further, the average of the bond equivalent rates of the quotes of the 3-month commercial paper (financial) rates in effect for each of the days in the quarter ending **March 31, 2006**, is **5.22** percent.

**Attachment A** contains the bond equivalent rates of the 91-day Treasury Bills auctioned during the quarter. **Attachments B, C & D** contain the quarterly special allowance rates computed pursuant to section 438 of the Higher Education Act of 1965, as amended (the Act).

Accounting Division  
Office of the Chief Financial Officer

Attachments

| AUCTION DATE   | BOND EQUIVALENT RATE |
|----------------|----------------------|
| 04/03/06       | 4.651%               |
| 04/10/06       | 4.688%               |
| 04/17/06       | 4.719%               |
| 04/24/06       | 4.755%               |
| 05/01/06       | 4.807%               |
| 05/08/06       | 4.864%               |
| 05/15/06       | 4.864%               |
| 05/22/06       | 4.828%               |
| 05/30/06       | 4.843%               |
| 06/05/06       | 4.833%               |
| 06/12/06       | 4.926%               |
| 06/19/06       | 4.958%               |
| 06/26/06       | 5.036%               |
|                | 62.772%              |
| AVERAGE =4.83% |                      |

**Attachment B - REGULAR SPECIAL ALLOWANCE RATES (QUARTER ENDING 06/30/06)**

**Attachment B Includes:** Stafford loans (subsidized and unsubsidized), PLUS loans, SLS loans, and Consolidation loans made or purchased with taxable funds.

- I. -- Stafford (subsidized and unsubsidized), PLUS (fixed-rate; includes student-borrower component of the PLUS Program), and Consolidation loans:  
made prior to 10/1/81.

**Formula: (4.83%)** plus (3.5%) less (applicable interest rate), rounded up to the nearest 1/8th of 1% = annual special allowance rate.

| APPLICABLE ANNUAL<br>INTEREST RATE | SPECIAL ALLOWANCE<br>AT ANNUAL RATE <sup>*</sup> | SPECIAL ALLOWANCE<br>FOR 3-MONTH PERIOD <sup>*</sup> |
|------------------------------------|--|--|
| 7%                                 | .01375   | .003438  |
| 9%                                 | .00  | .000000  |

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<sup>\*</sup> The Special Allowance at Annual Rate and Special Allowance for 3-month Period figures are shown as decimals throughout this memo, e.g., 0.5% (one-half of one percent) is shown as .005", 1.5% (one and one-half percent) is shown as .015", etc.

**Attachment B - REGULAR SPECIAL ALLOWANCE RATES (QUARTER ENDING 06/30/06)**

- II. -- Stafford (subsidized only) and PLUS (fixed-rate, includes student borrower component of the PLUS program) loans:  
    made on/after 10/1/81, but prior to 10/17/86.  
    made on/after 10/17/86, but prior to 11/16/86, for periods of enrollment beginning prior to 11/16/86.  
-- Consolidation loans:  
    made on/after 10/1/81, but prior to 11/16/86.  
-- *Also*, certain taxable obligations of South Carolina and Maine.

**Formula:** (4.83%) plus (3.5%) less (applicable interest rate) = annual special allowance rate.

| APPLICABLE ANNUAL<br>INTEREST RATE | SPECIAL ALLOWANCE<br>AT ANNUAL RATE | SPECIAL ALLOWANCE<br>FOR 3-MONTH PERIOD |
|------------------------------------|-------------------------------------|---|
| 7%                                 | .0133                               | .003325                                 |
| 8%                                 | .0033                               | .000825                                 |
| 9%                                 | .00                                 | .000000                                 |
| 12%                                | .00                                 | .000000                                 |
| 14%                                | .00                                 | .000000                                 |

**Attachment B - REGULAR SPECIAL ALLOWANCE RATES (QUARTER ENDING 06/30/06)**

- III. -- Stafford loans:  
     (subsidized) made on/after 10/17/86, but prior to 11/16/86, for periods of enrollment beginning on/after 11/16/86.  
     (subsidized) made on/after 11/16/86, but prior to 10/1/92.  
     (unsubsidized, made pursuant to 428H of the Act) made prior to 10/1/92 for periods of enrollment beginning on/after 10/1/92.
- PLUS/SLS loans:  
     (fixed-rate) made on/after 10/17/86, but prior to 11/16/86, for periods of enrollment beginning on/after 11/16/86.  
     (fixed-rate) made on/after 11/16/86, but prior to 7/1/87.  
     (variable-rate) made on/after 7/1/87, but prior to 10/1/92, *only* if the variable-rate for each July 1 - June 30 period reaches the statutory maximum of 12%.
- Consolidation loans:  
     made on/after 11/16/86, but prior to 10/1/92.

**Formula:** (4.83%) plus (3.25%) less (applicable interest rate) = annual special allowance rate.

| APPLICABLE ANNUAL INTEREST RATE | SPECIAL ALLOWANCE AT ANNUAL RATE | SPECIAL ALLOWANCE FOR 3-MONTH PERIOD |
|---------------------------------|----------------------------------|--------------------------------------|
| 6.10% <sup>1,2,3</sup>          | .0198                            | .004950                              |
| 6.25% <sup>4</sup>              | .0183                            | .004575                              |
| 7%                              | .0108                            | .002700                              |
| 8%                              | .0008                            | .000200                              |
| 9%                              | .00                              | .000000                              |
| 10%                             | .00                              | .000000                              |
| 11%                             | .00                              | .000000                              |
| 12%                             | .00                              | .000000                              |
| 13%                             | .00                              | .000000                              |
| 14%                             | .00                              | .000000                              |

***Also included for the period 7/1/05 - 6/30/06 (Fixed-rate Stafford loans that were subject to the "windfall profits" provisions of 427A(i)(3) or 427A(i)(1) of the Act and that have been converted to a variable rate):***

- <sup>1</sup> Fixed-rate 7% Stafford loans (1992 Amendments).
- <sup>2</sup> (a) Fixed-rate 8% Stafford loans, and (b) 8/10 Stafford loans (prior to the 49<sup>th</sup> month of repayment) (1992 Amendments).
- <sup>3</sup> (a) Fixed-rate 9% Stafford loans, and (b) 8/10% Stafford loans (on/after the 49<sup>th</sup> month of repayment) (1992 Amendments).
- <sup>4</sup> Fixed-rate 8/10% Stafford loans (on/after the 49<sup>th</sup> month of repayment) (1986 Amendments).

***See 427A(i)(7)(D) of the Act.***

**Attachment B - REGULAR SPECIAL ALLOWANCE RATES (QUARTER ENDING 06/30/06)**

- IV. -- Stafford loans:  
     (subsidized) made on/after 10/1/92, but prior to 7/1/95.  
     (unsubsidized) made on/after 10/1/92, but prior to 7/1/95, for periods of enrollment beginning on/after 10/1/92.  
     (subsidized and unsubsidized) made on/after 7/1/95 but prior to 7/1/98, *except* during the in-school, grace, and deferment periods.
- PLUS/SLS loans:  
     (variable-rate) made on/after 10/1/92 but prior to 7/1/94, *only* if the variable-rate for each July 1 - June 30 period reaches the statutory maximum of 11% (SLS) or 10% (PLUS).
- PLUS loans:  
     (variable-rate) made on/after 7/1/94 but prior to 7/1/98.  
     (variable-rate) made on/after 7/1/98 but prior to 1/1/00 (special allowance shall not be paid unless the calculated interest rate exceeds the 9% cap).
- Consolidation loans:  
     made on/after 10/1/92 but prior to 10/1/98.

**Formula:** (4.83%) plus (3.1%) less (applicable interest rate) = annual special allowance rate.

| APPLICABLE ANNUAL<br>INTEREST RATE | SPECIAL ALLOWANCE<br>AT ANNUAL RATE | SPECIAL ALLOWANCE<br>FOR 3-MONTH PERIOD |
|------------------------------------|-------------------------------------|---|
| 6% <sup>5</sup>                    | .0193                               | .004825                                 |
| 6.10% <sup>6, 7, 8</sup>           | .0183                               | .004575                                 |

[continued...]

<sup>5</sup> The 6% interest and special allowance rates *only* apply to Consolidation loans made on/after 7/1/94 with tax-exempt funds; the 10%, 11%, 13% and 14% interest and special allowance rates *only* apply to Consolidation loans made with tax-exempt funds.

<sup>6</sup> Fixed-rate 7% Stafford Loans (1992 Amendments).

<sup>7</sup> (a) Fixed-rate 8% Stafford loans, and (b) 8/10% Stafford loans (prior to the 49<sup>th</sup> month of repayment) that were subject to the "windfall profits" provisions of 427A(i)(3) of the Act and that have been converted to a variable rate (1992 Amendments).

<sup>8</sup> (a) *All* Stafford loans made for periods of enrollment that either begin on/after 7/1/94 or include that date for which the first disbursement is made on/after 7/1/94 but prior to 7/1/95, (b) Stafford loans for which the first disbursement is made on/after 7/1/95 and before 7/1/98, *except during the in-school, grace, and deferment periods*, and (c) consolidation loans for which the loan application was received on/after 11/13/97 and prior to 10/1/98.

**Attachment B - REGULAR SPECIAL ALLOWANCE RATES (QUARTER ENDING 06/30/06)**

IV. [...continued]

| APPLICABLE ANNUAL<br>INTEREST RATE | SPECIAL ALLOWANCE<br>AT ANNUAL RATE | SPECIAL ALLOWANCE<br>FOR 3-MONTH PERIOD |
|------------------------------------|-------------------------------------|---|
| 6.10% <sup>9</sup>                 | .0183                               | .004575                                 |
| 6.50% <sup>10</sup>                | .0143                               | .003575                                 |
| 7%                                 | .0093                               | .002325                                 |
| 8%                                 | .00                                 | .000000                                 |
| 9%                                 | .00                                 | .000000                                 |
| 10%                                | .00                                 | .000000                                 |
| 11%                                | .00                                 | .000000                                 |
| 12%                                | .00                                 | .000000                                 |
| 13%                                | .00                                 | .000000                                 |
| 14%                                | .00                                 | .000000                                 |

*Also included for the period 7/1/05 - 6/30/06 (Fixed-rate Stafford loans that were subject to the "windfall profits" provisions of 427A(i)(3) of the Act and that have been converted to a variable rate):*

*See 427A(i)(7)(D) of the Act.*

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<sup>9</sup> (a) Stafford loans, made to new borrowers, for which the first disbursement is made on/after 10/1/92 but prior to 7/1/94, (b) fixed-rate 9% Stafford loans that were subject to the "windfall profits" provisions of 427A(i)(3) of the Act and that have been converted to a variable rate; *see* 427A(i)(7)(D) of the Act and (c) 8/10% Stafford loans (on/after the 49<sup>th</sup> month of repayment) that were subject to the "windfall profits" provisions of 427A(i)(3) of the Act and that have been converted to a variable rate (1992 Amendments).

<sup>10</sup> PLUS loans made on/after 7/1/94 but prior to 7/1/98.

**Attachment B - REGULAR SPECIAL ALLOWANCE RATES (QUARTER ENDING 06/30/06)**

- V. -- Stafford loans (subsidized and unsubsidized):  
made on/after 7/1/95 but prior to 7/1/98, *only* during the in-school, grace, and deferment periods.

**Formula:** (4.83%) plus (2.5%) less (applicable interest rate) = annual special allowance rate.

| APPLICABLE ANNUAL<br>INTEREST RATE | SPECIAL ALLOWANCE<br>AT ANNUAL RATE | SPECIAL ALLOWANCE<br>FOR 3-MONTH PERIOD |
|------------------------------------|-------------------------------------|---|
| 5.50%                              | .0183                               | .004575                                 |

- VI. --Stafford loans (subsidized and unsubsidized):  
made on/after 7/1/98 but prior to 1/1/00 *only* during the in-school, grace, and deferment periods.

**Formula:** (4.83%) plus (2.2%) less (applicable interest rate) = special allowance rate.

| APPLICABLE ANNUAL<br>INTEREST RATE | SPECIAL ALLOWANCE<br>AT ANNUAL RATE | SPECIAL ALLOWANCE<br>FOR 3-MONTH PERIOD |
|------------------------------------|-------------------------------------|---|
| 4.70%                              | .0233                               | .005825                                 |

- VII. --Stafford loans (subsidized and unsubsidized):  
made on/after 7/1/98 but prior to 1/1/00, *except* during the in-school, grace, and deferment periods.

**Formula:** (4.83%) plus (2.8%) less (applicable interest rate) = special allowance rate.

| APPLICABLE ANNUAL<br>INTEREST RATE | SPECIAL ALLOWANCE<br>AT ANNUAL RATE | SPECIAL ALLOWANCE<br>FOR 3-MONTH PERIOD |
|------------------------------------|-------------------------------------|---|
| 5.30%                              | .0233                               | .005825                                 |



**Attachment B - REGULAR SPECIAL ALLOWANCE RATES (QUARTER ENDING 06/30/06)**

- VIII. --Consolidation loans  
made on/after 10/1/98 but prior to 1/1/00

**Formula:** (4.83%) plus (3.1%) less (applicable interest rate) = special allowance rate.

Note: The interest rate for these consolidation loans is determined by taking the weighted average of the interest rates on the loans being consolidated, rounded to the nearest higher 1/8<sup>th</sup> of one percent. Therefore, due to the wide range of possible applicable interest rates, no further calculations are shown here.

**Attachment C - SPECIAL ALLOWANCE RATES FOR TAX-EXEMPT LOANS (QUARTER ENDING 06/30/06)**

**Attachment C Includes:** Loans made or purchased with (a) funds obtained by the holder from the issuance, or refinancing of obligations originally issued prior to 10/1/93, or (b) funds derived from default reimbursements, collections, interest, or other income resulting from loans made or purchased with such tax-exempt funds.

- I. -- Tax-exempt loans, otherwise eligible for special allowance, made on/after 10/1/80, but prior to 10/1/81.

**Formula:** **(4.83%)** plus (3.5%) less (applicable interest rate), rounded up to the nearest 1/8th of 1%, divided by two = annual special allowance rate, *however* the annual special allowance rate is *not less than* 2.5% (for 7% loans) and 0.5% (for 9% loans).

| APPLICABLE ANNUAL<br>INTEREST RATE | SPECIAL ALLOWANCE<br>AT ANNUAL RATE | SPECIAL ALLOWANCE<br>FOR 3-MONTH PERIOD |
|------------------------------------|-------------------------------------|---|
| 7%                                 | .025                                | .00625                                  |
| 9%                                 | .005                                | .00125                                  |

**Attachment C - SPECIAL ALLOWANCE RATES FOR TAX-EXEMPT LOANS (QUARTER ENDING 06/30/06)**

II. -- Tax-exempt loans, otherwise eligible for special allowance, made on/after 10/1/81.

**Formula:** (4.83%) plus (3.5%) less (applicable interest rate), divided by two = annual special allowance rate, *however* the annual special allowance rate is *not less than*:

For loans made prior to 10/1/92, 2.5% (for 7% loans), 1.5% (for 8% loans), and 0.5% (for 9% loans).

For loans made on/after 10/1/92, 9.5% less the applicable interest rate.

| APPLICABLE ANNUAL<br>INTEREST RATE | SPECIAL ALLOWANCE<br>AT ANNUAL RATE | SPECIAL ALLOWANCE<br>FOR 3-MONTH PERIOD |
|------------------------------------|-------------------------------------|---|
| 4.70% <sup>11</sup>                | .048                                | .012000                                 |
| 5.30% <sup>12</sup>                | .042                                | .010500                                 |
| 5.50% <sup>13</sup>                | .040                                | .010000                                 |
| 6.00% <sup>14</sup>                | .035                                | .008750                                 |
| 6.10% <sup>15</sup>                | .034                                | .008500                                 |

[continued...]

***For the period 7/1/05 – 6/30/06:***

- <sup>11</sup> Stafford loans made on/after 7/1/98 but prior to 7/1/06, *only* during the in-school, grace, and deferment periods.
- <sup>12</sup> Stafford loans made on/after 7/1/98 but prior to 7/1/06, *except* during the in-school, grace and deferment periods.
- <sup>13</sup> Stafford loans for which the first disbursement is made on/after 7/1/95 and before 7/1/98, *only* during the in-school, grace, and deferment periods.
- <sup>14</sup> The 6% interest rates and special allowance rates *only* apply to Consolidation loans made on/after 7/1/94 with tax-exempt funds; the 10%, 11%, 13% and 14% interest and special allowance rates *only* apply to Consolidation loans made with tax-exempt funds.
- <sup>15</sup> (a) Fixed-rate 7% Stafford loans that were subject to the "windfall profits" provisions of 427A(i)(3) of the Act and that have been converted to a variable rate, and (b) fixed-rate 8% Stafford loans, and 8/10% Stafford loans (prior to the 49<sup>th</sup> month of repayment) that were subject to the "windfall profits" provisions of 427A(i)(3) of the Act and that have been converted to a variable rate. Also, see 427A(i)(7)(D) of the Act. (1992 Amendments).

**Attachment C - SPECIAL ALLOWANCE RATES FOR TAX-EXEMPT LOANS (QUARTER ENDING 06/30/06)**

II. [...continued]

| APPLICABLE ANNUAL<br>INTEREST RATE | SPECIAL ALLOWANCE<br>AT ANNUAL RATE | SPECIAL ALLOWANCE<br>FOR 3-MONTH PERIOD |
|------------------------------------|-------------------------------------|---|
| 6.10% <sup>16,17</sup>             | .034                                | .008500                                 |
| 6.25% <sup>18</sup>                | .0325                               | .008125                                 |
| 6.50% <sup>19</sup>                | .030                                | .007500                                 |
| 7%                                 | .025                                | .006250                                 |
| 8%                                 | .015                                | .003750                                 |
| 9%                                 | .005                                | .001250                                 |
| 10%                                | .00                                 | .000000                                 |
| 11%                                | .00                                 | .000000                                 |
| 12%                                | .00                                 | .000000                                 |
| 13%                                | .00                                 | .000000                                 |
| 14%                                | .00                                 | .000000                                 |

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***For the period 7/1/05 - 6/30/06:***

- <sup>16</sup> (a) Stafford loans, made to new borrowers, for which the first disbursement is made on/after 10/1/92 but prior to 7/1/94 (b) fixed-rate 9% Stafford loans that were subject to the "windfall profits" provisions of 427A(i)(3) of the Act and that have been converted to a variable rate; *see* 427A(i)(7)(D) of the Act and (c) 8/10% Stafford loans (on/after the 49<sup>th</sup> month of repayment) that were subject to the "windfall profits" provisions of 427A(i)(3) of the Act and that have been converted to a variable rate. (1992 Amendments).
- <sup>17</sup> (a) *All* Stafford loans made for periods of enrollment that either begin on/after 7/1/94 or include that date for which the first disbursement is made on/after 7/1/94 but prior to 7/1/95, (b) Stafford loans for which the first disbursement is made on/after 7/1/95 and before 7/1/98, *except during the in-school, grace, and deferment periods*, and (c) all PLUS loans made on/after 1/1/00 but prior to 7/1/06.
- <sup>18</sup> Fixed-rate 8/10% Stafford loans that were subject to the "windfall profits" provisions of 427A(i)(1) of the Act and that have been converted to a variable rate; *see* 427A(i)(7)(D) of the Act (1986 Amendments).
- <sup>19</sup> PLUS loans made on/after 7/1/94 but prior to 7/1/98.

**Attachment D - SPECIAL ALLOWANCE RATES BASED ON COMMERCIAL PAPER RATES (QUARTER ENDING 06/30/06)**

**Attachment D** Includes: Loans made on or after January 1, 2000 for which the special allowance is calculated using the average of the bond equivalent rates of the quotes of the 3-month commercial paper (financial) rates in effect for each of the days in the quarter.

- I. –Stafford loans (subsidized and unsubsidized):  
made on/after 1/1/00 but prior to 4/1/06, *only* during the in-school, grace and deferment periods;  
made on/after 4/1/06, *only* during the in-school, grace and deferment periods, and *which are subject to the repayment of excess interest as required under the Higher Education Reconciliation Act (HERA)*.

**Formula: (5.22%)** plus (1.74%) less (applicable interest rate) = annual special allowance rate.

| APPLICABLE ANNUAL<br>INTEREST RATE | SPECIAL ALLOWANCE<br>AT ANNUAL RATE | SPECIAL ALLOWANCE<br>FOR 3-MONTH PERIOD |
|------------------------------------|-------------------------------------|---|
|------------------------------------|-------------------------------------|---|

4.70%

.0226

.005650

- II. –Stafford loans (subsidized and unsubsidized):  
made on/after 1/1/00 but prior to 4/1/06, *except* during the in-school, grace and deferment periods;  
made on/after 4/1/06, *except* during the in-school, grace and deferment periods, and *which are subject to the repayment of excess interest as required under the Higher Education Reconciliation Act (HERA)*.

**Formula: (5.22%)** plus (2.34%) less (applicable interest rate) = annual special allowance rate.

| APPLICABLE ANNUAL<br>INTEREST RATE | SPECIAL ALLOWANCE<br>AT ANNUAL RATE | SPECIAL ALLOWANCE<br>FOR 3-MONTH PERIOD |
|------------------------------------|-------------------------------------|---|
|------------------------------------|-------------------------------------|---|

5.30%

.0226

.005650

**Attachment D - SPECIAL ALLOWANCE RATES BASED ON COMMERCIAL PAPER RATES (QUARTER ENDING 06/30/06)**

- III. -PLUS loans  
made on/after 1/1/00 but prior to 4/1/06;  
made on/after 4/1/06, and *which are subject to the repayment of excess interest as required under the Higher Education Reconciliation Act (HERA).*

**Formula:** (5.22%) plus (2.64%) less (applicable interest rate) = annual special allowance rate.

| APPLICABLE ANNUAL<br>INTEREST RATE | SPECIAL ALLOWANCE<br>AT ANNUAL RATE | SPECIAL ALLOWANCE<br>FOR 3-MONTH PERIOD |
|------------------------------------|-------------------------------------|---|
| 6.10%                              | .0176                               | .004400                                 |

- IV. -Consolidation loans  
for applications received on/after 1/1/00

**Formula:** (5.22%) plus (2.64%) less (applicable interest rate) = annual special allowance rate.

Note: The interest rate for these consolidation loans is determined by taking the weighted average of the interest rates on the loans being consolidated, rounded to the nearest higher 1/8<sup>th</sup> of one percent. Therefore, due to the wide range of possible applicable interest rates, no further calculations are shown here.