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Federal Student Loans Made Under the Federal Family Education Loan Program and the William D Ford Federal Direct Loan Program: Terms and Conditions for Borrowers

David P. Smole
Specialist in Education Policy

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Summary

The federal government operates two major student loan programs: the Federal Family Education Loan (FFEL) program, authorized under Title IV, Part B of the Higher Education Act (HEA), and the William D. Ford Federal Direct Loan (DL) program, authorized under Title IV, Part D of the HEA. These programs make available loans to undergraduate and graduate students and the parents of dependent undergraduate students to help them finance the costs of postsecondary education. Together, these programs provide more direct aid to support students' postsecondary educational pursuits than any other single source. In FY2009, it is estimated that these programs will provide $74 billion in new loans to students and their parents.

Under the FFEL program, loan capital is provided by private lenders, and the federal government guarantees lenders against loss through borrower default, death, permanent disability, or, in limited instances, bankruptcy. Under the DL program, the federal government provides the loans to students and their families, using federal capital (i.e., funds from the U.S. Treasury). The two programs rely on different sources of capital and different administrative structures, but essentially disburse the same set of loans: Subsidized Stafford Loans and Unsubsidized Stafford Loans for undergraduate and graduate students; PLUS Loans for graduate students and the parents of dependent undergraduate students; and Consolidation Loans through which borrowers may combine their loans into a single loan payable over a longer term, which varies according to the combined loan balance.

The loans made through the FFEL and DL programs are low-interest loans, with maximum interest rates for each type of loan established by statute. Subsidized Stafford Loans are unique in that they are only available to students demonstrating financial need. The Secretary of Education pays the interest that accrues on Subsidized Stafford Loans while borrowers are in school, during a six-month grace period, and during authorized periods of deferment. Unsubsidized Stafford Loans and PLUS Loans are available to borrowers irrespective of their financial need; and borrowers are responsible for paying all the interest that accrues on these loans.

FFEL and DL program loans have terms and conditions that may be more favorable to borrowers than private and other non-federal loans. These beneficial terms and conditions include interest rates that are often lower than rates that might be obtained from other lenders, opportunities for repayment relief through deferment and forbearance, loan consolidation, and several loan forgiveness programs.

Numerous changes were made to the FFEL and DL programs under the College Cost Reduction and Access Act (P.L. 110-84), the Ensuring Continued Access to Student Loans Act (P.L. 110-227); and the Higher Education Opportunity Act (P.L. 110-315). This report describes the terms and conditions of loans currently available to borrowers. It will be updated as warranted to reflect programmatic changes.

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Introduction[1]

The federal government operates two major student loan programs: the Federal Family Education Loan (FFEL) program and the William D. Ford Federal Direct Loan (DL) program.[2] These programs can trace their roots to the Guaranteed Student Loan (GSL) program, originally enacted in Title IV of the Higher Education Act (HEA) of 1965, to enhance access to postsecondary education for students from low- and middle-income families by providing them access to low-interest student loans.

The FFEL program, formerly named the GSL program, is authorized under Title IV, Part B of the HEA. Under the FFEL program, loan capital is provided by private lenders, and the federal government guarantees lenders against losses due to borrower default. The federal government also provides private lenders a variety of incentives designed to ensure that private capital will consistently be available to support FFEL program student loans.[3] Private lenders originate FFEL program loans, and state and nonprofit guaranty agencies receive federal funds to play the lead role in administering the federal loan guarantee.

The DL program, established in 1993 and authorized under Title IV, Part D of the HEA, was intended to streamline the student loan delivery system and achieve cost savings. Originally, it was intended to gradually expand and replace the FFEL program.

The DL program provides the same set of loans as the FFEL program, but uses a different administrative structure and draws on a different source of capital. Under the DL program, the federal government essentially serves as the banker—the federal government provides the loans to students and their families, using federal capital (i.e., funds from the U.S. Treasury), and owns the loans. Under the DL program, schools may serve as direct loan originators or the loans may be originated by a contractor working for the U.S. Department of Education (ED). ED also hires a contractor to service the loans.

While the original authorizing language for DL program called for the program to expand its share of new loan volume over a series of years, the Higher Education Amendments of 1998 (P.L. 105-244) ultimately removed the provisions of the law that referred to a "phase-in" of the DL program and those which specified the proportion of new student loan volume to be made through the DL program in particular academic years. Currently both programs are authorized. Institutions of higher education (IHEs) may apply to participate in one program or in both. Borrowers obtain loans annually under one program; and the program they borrow under is determined by the IHE they attend.

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[1] This report is adapted from CRS Report RL33673, *Federal Family Education Loan Program and William D. Ford Direct Loan Program Student Loans: Terms and Conditions for Borrowers*, by Adam Stoll.

[2] There is a smaller, separate, federal student loan program—the Federal Perkins Loan program—that is also authorized by the Higher Education Act, but which will not be discussed in this report. For more information on Perkins Loans, see CRS Report RL31618, *Campus-Based Student Financial Aid Programs Under the Higher Education Act*, by David P. Smole.

[3] One such incentive is the "special allowance payment," a market-indexed loan subsidy payment that is made by the government and which is designed to compensate lenders for the difference between the statutorily set interest rate charged to borrowers and a different statutorily set lender interest rate.

Together, these federal student loan programs provide more direct aid to support students' postsecondary educational pursuits than any other source. In FY2009, these programs are projected to provide $74 billion in new loans to students and their parents. Under the FFEL program, 12,702,000 new loans averaging approximately $4,669 each are projected to be made to 6,689,000 borrowers; and under the DL program, 2,961,000 new loans averaging approximately $5,020 each are projected to be made to 1,769,000 borrowers.[4]

This report discusses major provisions of federal student loans made available through the FFEL and DL programs. The primary emphasis is placed on discussing provisions related to borrower eligibility, loan terms and conditions, borrower repayment relief, and loan default and its consequences for borrowers. These topics are principally discussed with regard to loans currently being made. Historical information on certain prior terms and conditions is also presented in instances where there remains substantial interest in those aspects of loans.

Subsidized Stafford Loans, Unsubsidized Stafford Loans, and PLUS Loans are the types of loans students and their parents initially borrow to finance their postsecondary education expenses; and Consolidation Loans are used for purposes of combining loan balances or extending the repayment period. Eligibility requirements, loan limits, interest rates, and allowable fees for these loans are reviewed in the next section. This is followed by a comparable section on Consolidation Loans. The remainder of the report examines various terms and conditions of FFEL and DL program loans that are applicable to all loan types. These include student loan discounts and incentives, loan repayment, repayment relief, loan default, loan rehabilitation, loan discharge, and loan forgiveness. A glossary of selected financial terms is included in **Appendix A**.

This report describes currently effective provisions of the FFEL and DL programs and reflects amendments that have been enacted through November 2008, including those enacted in the 110th Congress under the College Cost Reduction and Access Act (CCRAA; P.L. 110-84),[5] the Ensuring Continued Access to Student Loans Act (ECASLA; P.L. 110-227),[6] and the Higher Education Opportunity Act (HEOA; P.L. 110-315).[7] It also discusses recently enacted amendments that take effect prospectively or that are temporary in duration.

FFEL and DL Program Loan Types

The following types of federally sponsored student loans are available through the DL and FFEL programs to support postsecondary student expenses: Subsidized Stafford Loans; Unsubsidized Stafford Loans; PLUS Loans; and Consolidation Loans. (Loans made under the DL program are officially referred to as Federal Direct Stafford Loans; Federal Direct Unsubsidized Stafford

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[4] U.S. Department of Education, Office of Planning, Evaluation and Policy Development, Budget Service, "Student Loan Volume Tables—FY2009 President's Budget," at http://www.ed.gov/about/overview/budget/studentloantables/index.html.

[5] For additional information on changes made to the FFEL and DL programs under the CCRAA, see CRS Report RL34077, *Student Loans, Student Aid, and FY2008 Budget Reconciliation*, by Adam Stoll, David P. Smole, and Charmaine Mercer.

[6] For additional information on changes made to the FFEL and DL programs under the ECASLA, see CRS Report RL34452, *The Ensuring Continued Access to Student Loans Act of 2008*, by David P. Smole.

[7] For additional information on changes made to the FFEL and DL programs under the HEOA, see CRS Report RL34654, *The Higher Education Opportunity Act: Reauthorization of the Higher Education Act*, by David P. Smole et al.

Loans; Federal Direct PLUS Loans; and Federal Direct Consolidation Loans.)[8] A common feature of all of these loans is that the federal government (as either the guarantor or lender) assumes the risk for losses that may occur through borrower default, and pays for the discharge of loans in cases of borrower death, disability, and other limited instances. Another common feature shared by these loans is that, for each type of loan, maximum interest rates and fees that may be charged to borrowers are established by statute.

Subsidized Stafford Loans

These loans are need-based loans and are available to undergraduate, graduate, and professional students. To qualify for a Subsidized Stafford Loan, a student must establish financial need. The federal government "subsidizes" these loans by paying the interest on the loans while the borrower is enrolled in an eligible program on at least a half-time basis, and during grace periods and deferment periods.[9] Subsidized Stafford Loans for which the first disbursement is made on or after July 1, 2006, are fixed interest rate loans. The interest rate applicable to Subsidized Stafford Loans depends on the type of student borrowing the loan and the date on which the first disbursement of the loan is made. The fixed interest rate on Subsidized Stafford Loans to undergraduate students for which the first disbursement is made on or after July 1, 2008, and before July 1, 2009 is 6.0%. (Different interest rates apply to loans made to undergraduate students during other periods; and these rates are presented later in this report.) The fixed interest rate on Subsidized Stafford Loans to graduate and professional students for which the first disbursement is made on or after July 1, 2006, is 6.8%.

Unsubsidized Stafford Loans

These loans are non-need-based loans and are available to undergraduate, graduate, and professional students. The federal government does not pay the interest on these loans while the borrower is in school, nor during deferment and grace periods. The fixed interest rate on all Unsubsidized Stafford loans made on or after July 1, 2006, is 6.8%.

PLUS Loans

These loans are non-need-based loans and are available to parents of dependent undergraduate students[10] and to graduate and professional students. The federal government does not pay the

[8] For purposes of simplicity, in this report where Subsidized Stafford Loans and Unsubsidized Stafford Loans share the same characteristics, they will be referred to jointly as "Stafford Loans;"and in instances where loans made under the FFEL program and those made under the DL program share the same characteristics, the "Federal Direct" identifier will be omitted.

[9] A grace period is a six-month period beginning immediately after a student first ceases to be enrolled in school on at least a half-time basis. During the grace period, borrowers are not required to begin repaying their loans. Deferment periods (discussed later in this report) are periods during which borrowers are able to suspend loan repayment (e.g., if they are pursuing additional postsecondary studies, are performing qualifying military service, or are experiencing an economic hardship).

[10] Beginning July 1, 2009, in the FFEL program, PLUS Loans to parents of dependent undergraduate students will be made through a Competitive Loan Auction Pilot Program. Under the program, auctions will be held in each state and lenders will bid on the minimum amount of subsidization they will accept to obtain rights to originate parent PLUS loans in that state. Parent borrowers will be able to borrow PLUS Loans only from one of the winning bidders (up to two) permitted to make loans in their state.

interest on PLUS Loans while the student on whose behalf the loan is made is in school, nor during deferment and grace periods. The fixed interest rate on PLUS Loans for which the first disbursement is made on or after July 1, 2006 is 8.5% for loans made under the FFEL program; and 7.9% for loans made under the DL program.

Consolidation Loans

These loans allow borrowers with existing federal student loans to combine their loan obligations into a single loan and to extend their repayment period. Consolidation Loans currently being disbursed are fixed rate loans. The interest rate for Consolidation Loans is based on the weighted average interest rate of the loans being consolidated, rounded up to the nearest higher one-eighth of 1%. Borrowers can qualify for Consolidation Loans regardless of financial need.

Stafford Loans and PLUS Loans

This section discusses borrower eligibility requirements, loan limits, interest rates, and allowable fees for Subsidized Stafford Loans, Unsubsidized Stafford Loans, and PLUS Loans.

Eligibility Requirements

In General

In general, to be eligible for any new loan under the FFEL and DL programs, a student borrower must meet certain eligibility requirements. These include (1) be enrolled on at least a half-time basis as a regular student in an eligible program at a participating eligible IHE or in a preparatory program necessary for enrollment in an eligible program (for up to one year), or in a teacher certification program; (2) not be incarcerated in a federal or state penitentiary; (3) be a U.S. citizen or national, U.S. permanent resident, or other eligible non-citizen; (4) maintain satisfactory academic progress as defined by the school; (5) not be in default on a federal student loan nor owe a refund on a grant or loan made under Title IV without having made arrangements for repayment;[11] (6) have on file at the institution attended, a statement of educational purpose stating that the loan will be used solely for educational expenses; and (7) meet applicable Selective Service registration requirements.

PLUS Loans

PLUS Loans may be borrowed by one or both parents of a dependent undergraduate student to help finance the postsecondary education of a child who meets the basic eligibility criteria cited above. Parent borrowers must also meet the same citizenship and residency requirements as student borrowers; and may not be in default on a federal student loan nor owe a refund on a grant or loan made under Title IV without having made arrangements for repayment. For purposes of borrowing a PLUS Loan for a dependent student, eligible parents include biological

[11] Title IV of the HEA authorizes most federal student aid programs, including the FFEL and DL programs. Students who default on loans made under the FFEL, DL, or Federal Perkins Loan programs may have their eligibility for Title IV aid restored through rehabilitation provisions that may vary by program. Reinstatement is only available once.

parents, adoptive parents, and—if their income and assets are taken into account in determining a student's expected family contribution (EFC)—stepparents. Legal guardians may not borrow PLUS Loans as parent borrowers.

To be eligible to borrow a PLUS Loan as a parent borrower or a graduate or professional student borrower, an individual may not have an adverse credit history, as determined pursuant to ED regulations. Dependent undergraduate students whose parents are unable to obtain a PLUS Loan due to an adverse credit history are eligible to borrow increased Unsubsidized Stafford Loan amounts (discussed below).

According to regulations in effect prior to the enactment of the ECASLA, lenders were required to obtain at least one credit report on all applicants for PLUS Loans; and unless extenuating circumstances existed, lenders were required to consider an applicant to have an adverse credit history if the applicant was 90 days or more delinquent on a debt payment; or if, within the past five years, the applicant "has been the subject of a default determination, bankruptcy discharge, foreclosure, repossession, tax lien, wage garnishment, or write-off of a Title IV debt."[12] Regulations have also required lenders to retain a record of the basis for determining that extenuating circumstances existed for any borrower, such as an updated credit report, or documentation from the creditor that the borrower has made satisfactory arrangements to repay the debt.[13]

The ECASLA and the HEOA amended the HEA to specify certain extenuating circumstances under which eligible lenders may make PLUS Loans to individuals who otherwise would have been determined to have adverse credit histories. With respect to loans for which the first disbursement is made on or after July 1, 2008, lenders may determine that extenuating circumstances exist, if during the period from January 1, 2007, through December 31, 2009, an applicant is no more than 180 days delinquent on mortgage payments for a primary residence or on medical bills.

Factors That Affect Eligibility to Borrow

A student's dependency status and grade level, demonstration of financial need, and the cost of attendance (COA)[14] of the school attended affect eligibility to borrow particular types of loans, the amount that may be borrowed, and the applicable interest rate. These factors are briefly discussed below.

Dependency Status and Grade Level

A student's dependency status and grade level determine the types of loans available to be borrowed and limit the amount that may be borrowed. Dependency status is determined by a student's responses to questions on the Free Application for Federal Student Aid (FAFSA), which is completed and submitted to ED by students applying for federal student aid. A student is deemed to be independent of his parents' support if the student

[12] 34 C.F.R. §§ 682.201(c)(2)(ii) and 685.200(c)(2)(vii).

[13] 34 C.F.R. § 682.201(c)(2)(v).

[14] Cost of attendance is defined at HEA, § 472. It generally includes tuition and fees, an allowance for books, supplies and transportation, room and board, and other expenses related to school attendance.

- is 24 years of age or older by December 31 of the award year;
- is an orphan or ward of the court or was a ward of the court until the individual reached the age of 18;[15]
- is a veteran of the Armed Forces of the United States or is currently serving on active duty in the Armed Forces for other than training purposes;
- is a graduate or professional student;
- is a married individual;
- has legal dependents other than a spouse; or
- is a student for whom a financial aid administrator makes a documented determination of independence by reason of other unusual circumstances.[16]
- Grade level is based on student progression according to the academic standards of the school the student attends. For undergraduate students, progression to a higher grade level for purposes of awarding Stafford Loans does not necessarily correspond to the start of a new academic year. For instance, a student who continues to make satisfactory academic progress, but does not progress to the next grade level could, for instance, receive Stafford Loans more than once as a first-year student. Once the student accrues enough credits to progress to the next higher grade level, the student would become eligible for the higher borrowing limits available to second-year students. To be eligible to borrow Stafford Loans or PLUS Loans as a graduate student, an individual must be enrolled in a program above the baccalaureate level or one that leads to a first professional degree, must have completed at least three years of full-time study at an IHE, and must not be concurrently receiving Title IV aid as an undergraduate student.[17]
- Dependency status and grade level are important because they determine the type of borrowing available to students and their families, which in turn affects the borrowing limits (discussed below) available to them. Of particular importance with regard to undergraduate students is the fact that PLUS Loans—the loans with the most flexible borrowing limits—are only available to the parents of dependent students. At the same time, undergraduate independent students are extended higher personal borrowing limits than dependent students.[18] The

[15] Effective July 1, 2009, this provision is revised to "is an orphan, in foster care, or a ward of the court, at any time when the individual is 13 years of age or older." Additionally, effective July 1, 2009 a student may also be deemed to be independent upon meeting the following criteria: is an emancipated minor or is in legal guardianship as determined by a court of competent jurisdiction in the individual's State of legal residence; or has been verified as an unaccompanied youth who is a homeless child or youth as defined by the McKinney-Vento Homeless Assistance Act, or at risk of homelessness.

[16] HEA, § 480(d); (20 U.S.C. § 1087vv(d)). Effective July 1, 2009, a financial aid administrator may also make a determination of independence based upon a documented determination of independence that was previously made by another financial aid administrator in the same award year.

[17] 34 CFR § 682.200(b).

[18] Dependent undergraduates may be eligible to borrow Stafford Loans up to the larger combined Stafford Loan limits available to independent undergraduate students (displayed in **Table 1**) in instances where a financial aid administrator determines that their parent(s) is unable to borrow PLUS Loans due to certain exceptional circumstances. Exceptional circumstances may apply in instances of a student whose parent is unable to qualify to borrow PLUS Loans due to an adverse credit history, whose parent's only income is from public assistance or disability benefits, whose parent is incarcerated, whose parent's whereabouts are unknown, or whose parent is not a U.S. citizen or permanent resident.

operating assumption is that students and their parents will borrow to finance the postsecondary education expenses of dependent students, whereas, independent students will be financing their expenses without parental assistance. The types of loans available to undergraduate students and their families align with this assumption.

- Graduate students, all of whom are independent, are extended the highest personal borrowing limits of any students. In addition to being able to borrow both Subsidized Stafford Loans and Unsubsidized Stafford Loans, graduate students are also eligible to borrow PLUS Loans, provided that they do not have an adverse credit history.
- Dependency status also determines which set of income and assets is included in need analysis calculations (discussed below). Need analysis calculations for dependent students are based on the income and assets of both the student and the student's parents,[19] whereas need analysis calculations for independent students are based on the student's (and if applicable, the student's spouse's) income and assets.

Need Analysis

Although dependency status and grade level determine the types of loans and loan limits that generally may be made available to students, federal student aid need analysis procedures determine specific amounts that individuals may borrow in need-based Subsidized Stafford Loans, up to annual loan limits (described below).

Subsidized Stafford Loans. Applicants seeking to borrow Subsidized Stafford Loans must undergo a "need test" through which the expected family contribution to be made by the student and the student's family toward paying college expenses is determined based on the financial resources available to the student. According to federal student aid need analysis procedures, the student's EFC is calculated and subtracted from the estimated COA of the institution the student attends to determine the amount of need-based financial aid that an applicant is eligible to receive. Additional calculations are then performed to determine the composition of the student's federal student aid package. For instance, undergraduate students must receive a determination of their eligibility to receive a Federal Pell Grant (a form of need-based aid available only to undergraduates) prior to being certified by their school as being eligible to borrow a Stafford Loan. This is designed to first provide maximum grant aid to needy students before they incur student loan debt.

Separate calculations are performed to determine the mix of Subsidized Stafford Loan aid and Unsubsidized Stafford Loan aid that an applicant is eligible to receive. To determine the maximum Subsidized Stafford Loan amount a student is eligible to borrow (up to applicable annual loan limits), the student's EFC is summed with estimated financial assistance from other sources (EFA), and this total is subtracted from the estimated COA. This calculation is shown below:

Subsidized Stafford Loan eligibility = COA-(EFC + EFA)

[19] Parental income and assets can be defined in a variety of ways in cases where a student's parents are not married to each other. See the Free Application for Federal Student Aid (FAFSA) for additional information.

The student's EFA is comprised of any aid provided under the Federal Pell Grant, Academic Competitiveness (AC) Grant, National Science and Mathematics Access to Retain Talent (SMART) Grant, Federal Supplemental Educational Opportunity Grant (FSEOG), Federal Perkins Loan, and Federal Work-Study (FWS) programs; veterans' education benefits (other than benefits received under the Montgomery G.I. Bill—Active Duty (MGIB-AD) program;[20] and other scholarship, grant, or loan assistance (other than national service education awards provided under Title I of the National and Community Service Act of 1990). The result of this calculation is the amount which may be borrowed through a Subsidized Stafford Loan.

Unsubsidized Stafford Loans. Unsubsidized Stafford Loans are non-need-based loans. Students are eligible to borrow Unsubsidized Stafford Loans irrespective of their EFC in amounts up to the annual total Stafford Loan limit, less any amount borrowed through a Subsidized Stafford Loan. The amount students may borrow in Unsubsidized Stafford Loans is limited to the lesser of (1) the result subtracting the student's EFA (including any amount borrowed through a Subsidized Stafford Loan) from COA, or (2) the result of subtracting the amount borrowed through a Subsidized Stafford Loan from the annual total Stafford Loan limit. This calculation is shown below:

Unsubsidized Stafford Loan eligibility =
min[(COA-EFA),(total Stafford Loan Limit-Subsidized Stafford Loan amount)]

PLUS Loans. Like Unsubsidized Stafford Loans, PLUS Loans are non-need-based loans. Graduate and professional students and parents of dependent undergraduate students may borrow PLUS Loans irrespective of their EFC. The amount that may be borrowed in PLUS Loans is limited to the result of subtracting the EFA (including any amount borrowed through Stafford Loans) of the student on whose behalf the loan is being made, from COA. The calculation for determining PLUS Loan eligibility is shown below:

PLUS Loan eligibility = COA-EFA

For dependent undergraduate students, the total PLUS Loan eligibility amount may be borrowed by one parent, or it may be divided among more than one parent (including non-custodial parents) and borrowed separately. In general, it is not necessary that students complete a Free Application for Federal Student Aid (FAFSA) for their parents to be eligible to borrow parent PLUS Loans on their behalf. Graduate and professional students, however, are required to complete a FAFSA as a condition for becoming eligible to borrow PLUS Loans.

Loan Limits

Annual Loan Limits

Separate annual borrowing limits apply to the amount that students may borrow through Subsidized Stafford Loans and the total amount that students may borrow through Subsidized Stafford Loans and Unsubsidized Stafford Loans, combined. There is no specified limit to the amount that may be borrowed through PLUS Loans. Annual loan limits apply to the maximum principal amount that may be borrowed; and any fees that the borrower is required to pay

[20] Effective July 1, 2010, all forms of veterans' education benefits will be excluded from being treated as EFA.

(described below) are included in the amount subject to these limits. Borrowing limits for Stafford Loans vary by borrower dependency status and grade level.

For students enrolled for less than one year, borrowing limits are prorated based on the fraction of the academic year for which they are enrolled. An "academic year" is defined in statute as a minimum of 30 weeks of instruction for courses of study measured in credit hours, or 26 weeks of instruction for courses of study measured in clock hours; and during which a full-time student is expected to complete a minimum of 24 semester or trimester hours, 36 quarter hours, or 900 clock hours.

Aggregate Loan Limits

Limits are also placed on the total amount of outstanding Stafford Loan debt (i.e., unpaid principal) that undergraduate, graduate, and professional students may accrue. For each borrower type, one limit applies to the total amount that may be borrowed in Subsidized Stafford Loans and another limit applies to the total amount that may be borrowed in Subsidized Stafford Loans and Unsubsidized Stafford Loans, combined. No aggregate limits, however, are placed on PLUS Loans.

Annual and aggregate loan limits applicable to most borrowers, by borrower dependency status and grade level, are presented in **Table 1** for Subsidized Stafford Loans, total Stafford Loans (i.e., Subsidized Stafford Loans and Unsubsidized Stafford Loans, combined), and PLUS Loans. As described above, the amount that may be borrowed through Subsidized Stafford Loans is also limited to the amount of a student's financial need as determined by need analysis procedures; and the amounts that may be borrowed through total Stafford Loans and PLUS Loans are limited to the difference between the student's cost of attendance and estimated financial assistance.[21]

Table 1. Annual and Aggregate Loan Limits for Borrowers of Stafford Loans and PLUS Loans, by Dependency Status and Grade Level

Borrower Dependency Status and Grade Level	Subsidized Stafford Loans ($)	Total Subsidized & Unsubsidized Stafford Loans ($)	PLUS Loans ($)
Dependent Undergraduate			
Annual loan limits			
1st year	3,500	5,500	n.a.
2nd year	4,500	6,500	n.a.
3rd year and above	5,500	7,500	n.a.
Aggregate loan limits[a]			
All	23,000	31,000	n.a.
Independent Undergraduate[a]			

[21] In addition, recipients of TEACH Grants who fail to meet the requirements of the program may be required to repay the amount of their TEACH Grant award in the form of an Unsubsidized Stafford Loan. For such individuals, this Unsubsidized Stafford Loan amount is determined separately from otherwise applicable annual borrowing limits.

Borrower Dependency Status and Grade Level	Subsidized Stafford Loans ($)	Total Subsidized & Unsubsidized Stafford Loans ($)	PLUS Loans ($)
Annual loan limits			
1st year	3,500	9,500	n.a.
2nd year	4,500	10,500	n.a.
3rd year and above	5,500	12,500	n.a.
Aggregate loan limits[a]			
All	23,000	57,500	n.a.
Independent Graduate and Professional			
Annual loan limits			
In general	8,500	20,500	Up to COA-EFA[b]
Aggregate loan limits[d]			
In general	65,000	138,500	Not limited[b]
Parents of Dependent Undergraduate Students			
Annual loan limits			
All borrowers	n.a.	n.a.	Up to COA-EFA[b]
Aggregate loan limits			
All borrowers	n.a.	n.a.	Not limited[b]

Sources: HEA, §§ 428 and 428H; 34 CFR 682.204; and Department of Education, Office of Postsecondary Education, Dear Colleague Letters GEN-05-09, GEN-08-04, and GEN-08-08.

Note: "n.a." means not applicable.

a. Accrued interest and other charges that have not been capitalized do not count toward aggregate loan limits. Stafford Loans that have been included in Consolidation Loans are attributed to the aggregate limits for Subsidized Stafford Loans and Total Stafford Loans according to their proportionate amount of the Consolidation Loan.

b. These loan limits also apply to dependent undergraduate students whose parents are unable to obtain PLUS Loans.

c. There is no statutory borrowing limit for PLUS Loans; however, borrowers must be credit-worthy.

d. Accrued interest and other charges that have not been capitalized do not count toward aggregate loan limits. Stafford Loans that have been included in Consolidation Loans are attributed to the aggregate limits for Subsidized Stafford Loans and Total Stafford Loans according to their proportionate amount of the Consolidation Loan. Loan limits for graduate and professional students include amounts borrowed for undergraduate loans.

A comprehensive listing of currently applicable annual and aggregate loan limits for all types of borrowers (including borrowers with special circumstances), by dependency status and grade level is presented in Error! Reference source not found.(see **Appendix B**). Historical listings of annual and aggregate loan limits is presented in **Table** and **Table B-3**, respectively (see **Appendix B**).

Interest Rates

Stafford Loans

The interest rates applicable to Stafford Loans are established by statute.[22] Applicable interest rates have changed numerous times throughout the history of the federal student loan programs, including changes between fixed interest rates and variable interest rate formulas. This section discusses the interest rates that are applicable to the majority of loans currently in repayment, loans that are currently being disbursed, and loans to be disbursed in future years.

Stafford Loans disbursed on or after October 1, 1992 and before July 1, 2006 are variable rate loans, on which rates adjust annually.[23] The formula used to calculate the variable interest rate for these loans, many of which are still outstanding, is determined by statute and stays in effect from the time the loan is disbursed through the life of the loan (provided that the loan is not consolidated into a fixed-rate Consolidation Loan).[24] The rates for these Stafford Loans are determined every June 1, and become effective July 1 for the following 12-month period. The variable rate is calculated based upon the bond equivalent rate of the 91-day Treasury bill, plus a premium which differs depending on whether the borrower is in school, or in repayment.[25] For loans made from July 1, 1998, through June 30, 2006, the borrower interest rate is based on the 91-day Treasury bill plus 1.7 percentage points for borrowers who are in school; and the 91-day Treasury bill plus 2.3 percentage points for borrowers who are in repayment.[26] The maximum interest rate that may apply to Stafford Loans disbursed during this period is capped at 8.25%.

Stafford Loans for which the first disbursement is made on or after July 1, 2006, are fixed interest rate loans. For all Subsidized Stafford Loans and Unsubsidized Stafford Loans disbursed on or after July 1, 2006, and before July 1, 2008, a 6.8% interest rate applies. Lower fixed interest rates apply to Subsidized Stafford Loans made to undergraduate students on or after July 1, 2008, and before July 1, 2012. During this period, the 6.8% fixed interest rate continues to apply to Subsidized Stafford Loans to graduate and professional students, and to all Unsubsidized Stafford Loans. Also, under current law, the 6.8% fixed interest rate will apply to all Stafford Loans disbursed on or after July 1, 2012. Interest rates on Stafford Loans first disbursed on or after July 1, 2006 are presented in **Table 2**.

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[22] These interest rates are maximum authorized rates. The statutory rates are generally the rates charged to borrowers, although lenders may voluntarily make loans with lower interest rates.

[23] For all Stafford Loans first disbursed on or after July 1, 1994, the applicable interest rate, and whether the rate is fixed or variable, depends on the date the first disbursement of a borrower's loan is made. Previously, applicable interest rates depended largely on whether a borrower had outstanding loans at the time of borrowing an additional loan.

[24] If a variable rate loan is consolidated into a new Consolidation Loan, the interest rate becomes fixed. At present, the interest rate on Consolidation Loans is the weighted average of the interest rates in effect on the underlying loans, at the time of consolidation, rounded up to the nearest higher one-eighth of 1%, and capped at 8.25%. Previously, other rate setting formulas applied to Consolidation Loans (See **Table** in **Appendix B**).

[25] Interest rates are adjusted annually based on the bond equivalent rate of the 91-day Treasury bill at the final auction held prior to June 1.

[26] A differential rate is provided for those in school and in repayment because loan servicing costs are lower during the in-school period, when no payments are required.

Table 2. Stafford Loan Interest Rates

Disbursement Period	Fixed Interest Rate in Effect	
	Subsidized Stafford Loans	Unsubsidized Stafford Loans
July 1, 2006-June 30, 2008		
Undergraduate students	6.8	6.8
Graduate and professional students	6.8	6.8
July 1, 2008-June 30, 2009		
Undergraduate students	6.0	6.8
Graduate and professional students	6.8	6.8
July 1, 2009-June 30, 2010		
Undergraduate students	5.6	6.8
Graduate and professional students	6.8	6.8
July 1, 2010-June 30, 2011		
Undergraduate students	4.5	6.8
Graduate and professional students	6.8	6.8
July 1, 2011-June 30, 2012		
Undergraduate students	3.4	6.8
Graduate and professional students	6.8	6.8
On or after July 1, 2012		
Undergraduate students	6.8	6.8
Graduate and professional students	6.8	6.8

Source: HEA §§ 427A, 428, and 455(b); (20 U.S.C. §§ 1077a, 1078 and 1087e(b)).

A history of Stafford Loan interest rates and interest rate formulas that have been in effect since the initial GSL program was launched in 1965 is presented in **Table** (see **Appendix B**). A history of the actual interest rates in effect on fixed rate and variable rate Stafford Loans, by borrower cohort, for the period from 1992-1993 onward is presented in **Table B-5** Error! Reference source not found.(see **Appendix B**).

PLUS Loans

PLUS Loans disbursed from the time of their introduction in 1981, through June 30, 1987, are fixed interest rate loans. Those disbursed on or after July 1, 1987, and before July 1, 2006, are variable rate loans, on which rates adjust annually. The formula used to calculate the variable interest rate for these PLUS Loans is specified in statute and stays in effect from the time the loan is disbursed through the life of the loan (provided that the loan is not consolidated into a fixed-rate Consolidation Loan). Interest rates on PLUS Loans are determined every June 1, and become effective July 1 for the following 12-month period.[27] The interest rate formula for “new” PLUS

[27] For PLUS Loans with a Treasury bill index, rates are adjusted annually based on the bond equivalent rate of the Treasury bill at the final auction held prior to June 1. For loans based on the one-year constant maturity Treasury yield, (continued...)

loans disbursed from July 1, 1998, through June 30, 2006, is the bond equivalent rate of the 91-day Treasury bill plus a premium of 3.1 percentage points, capped at 9%.

PLUS Loans disbursed on or after July 1, 2006 are fixed rate loans. Those made under the DL program have a fixed interest rate of 7.9%, while those made under the FFEL program have a fixed interest rate of 8.5%. In the 107th Congress, a fixed interest rate of 7.9% was established prospectively for PLUS loans disbursed on or after July 1, 2006 under both the FFEL and DL programs.[28] Under the Higher Education Reconciliation Act (HERA),[29] the interest rate for PLUS Loans made under the FFEL program—but not those made under the DL program—was increased to 8.5% before the 7.9% interest rate would have gone into effect.[30] The 7.9% interest rate for DL program PLUS Loans remains in effect.

A history of PLUS Loan interest rates and interest rate formulas is presented in **Table** (see **Appendix B**). The actual interest rates in effect on fixed rate and variable rate PLUS Loans, by borrower cohort, for the period from 1992-1993 onward are presented in **Table** (see **Appendix B**).

Borrower Fees

In addition to being responsible for repaying loan principal and interest, borrowers of Stafford Loans and PLUS Loans are responsible for paying loan origination fees and default fees. (These previously had been referred to as loan insurance fees.) These borrower fees help offset federal subsidy costs. In essence, these fees pass along some of the federal cost of insuring and subsidizing loans to the borrowers.

Loan origination fees are calculated as a proportion of the loan principal borrowed and are deducted proportionately from each disbursement of the loan proceeds to the borrower. (The principal amount borrowed is often referred to as the gross disbursement amount; and the amount the borrower actually receives, after the deduction of borrower fees, to be applied toward education expenses is often referred to as the net disbursement amount.) Under the FFEL program, for Stafford Loans and PLUS Loans for which the first disbursement was made on or after July 1, 1994, and before July 1, 2006, the origination fee was limited to not more than 3%. In addition, during that period in the FFEL program, guaranty agencies could assess a loan insurance premium of not more than 1% on Stafford Loans and PLUS Loans. In the DL program, borrowers paid a 4% origination fee to the federal government until ED reduced the origination fees for Stafford Loans to 3%, effective August 15, 1999.[31]

(...continued)

the rates are adjusted annually based on the weekly average one-year constant maturity Treasury yield, as published by the Board of Governors of the Federal Reserve System for the last calendar week ending before June 26.

[28] This provision was enacted under P.L. 107-139.

[29] The HERA was enacted as Title VIII, Subtitle A of P.L. 109-171, the Deficit Reduction Act of 2005. For additional information on student loan provisions enacted under the HERA, see CRS Report RS22308, *Student Loans and FY2006 Budget Reconciliation*, by Adam Stoll.

[30] It is generally accepted that a drafting error led to the differential interest rates in the final reconciliation measure, and that an 8.5% rate was intended for both programs. See "Bill Would Repeal Loan Provision," *Chronicle of Higher Education,* June 23, 2006, for details.

[31] See U.S. Department of Education, Office of Federal Student Aid, Direct Loan Bulletin, "Reduction in the Loan Origination Fee for Direct Loan Borrowers," DLB 99-36, June 16, 1999, at http://www.ifap.ed.gov/dlbulletins/ (continued...)

Changes to borrower fees were enacted under the HERA for FFEL and DL program loans. Under the FFEL program, all loans disbursed on or after July 1, 2006, are subject to a default fee of up to 1%, which replaces the 1% insurance premium. The origination fee on FFEL program Stafford Loans was reduced to 2% on loans for which the first disbursement was made on or after July 1, 2006, and before July 1, 2007. For subsequent years, the origination fee is reduced by 0.5 percentage point per year, until being phased out for loans first disbursed on or after July 1, 2010. The origination fee for FFEL program PLUS Loans remains at 3%. The HERA also established origination fees for DL program loans in statute. For DL program Stafford Loans, a 3% origination fee was specified for Stafford Loans for which the first disbursement was made on or after July 1, 2006, and before July 1, 2007. The DL program Stafford Loan origination fee is reduced by 0.5 percentage points each subsequent year, until it reaches 1% for Stafford Loans disbursed on or after July 1, 2010. The origination fee for DL program PLUS Loans remains at 4%. Borrower fees on FFEL and DL program Stafford Loans and PLUS Loans disbursed on or after July 1, 2006 are presented in **Table 3**. Historical borrower fees on Stafford Loans and PLUS Loans are presented in **Table B-8** (see **Appendix B**).

Table 3. Borrower Fees on Stafford Loans and PLUS Loans, by Loan Program: Loans Disbursed On or After July 1, 2006

Disbursement Period	Ffel Program Loans				DL Program Loans	
	Stafford Loans		PLUS Loans		Stafford Loans	PLUS Loans
	Origination Fee (%)	Default Fee (%)	Origination Fee (%)	Default Fee (%)	Origination Fee (%)	Origination Fee (%)
July 1, 2006-June 30, 2007	2.0	1.0	3.0	1.0	3.0	4.0
July 1, 2007-June 30, 2008	1.5	1.0	3.0	1.0	2.5	4.0
July 1, 2008-June 30, 2009	1.0	1.0	3.0	1.0	2.0	4.0
July 1, 2009-June 30, 2010	0.5	1.0	3.0	1.0	1.5	4.0
On or after July 1, 2010	0.0	1.0	3.0	1.0	1.0	4.0

Source: HEA, §§ 428(b), 438(c), and 455(c).

Consolidation Loans

Consolidation Loans enable borrowers to simplify the repayment of their federal student loans by combining multiple loans into a single loan. Depending on the amount owed, loan consolidation may also provide borrowers the opportunity to repay their loans over an extended period of time, which reduces the monthly payment amount (although it increases the total amount that must be

(...continued)

attachments/dlb9936a.pdf. Some controversy surrounded the Secretary of Education's authority to make this reduction. See *Education Daily*, June 18, 1999, p. 3.

paid due to the longer period over which interest accrues). In addition, loan consolidation currently affords borrowers the opportunity to lock in a fixed interest rate on their student loans, based on the weighted average of the interest rates in effect on the loans being consolidated, rounded up to the nearest higher one-eighth of 1%, but capped at 8.25%. Borrowers are not assessed origination fees or default fees on Consolidation Loans.

Eligibility Requirements

To be eligible to obtain a Consolidation Loan, a borrower must have an outstanding principal balance on at least one loan made under either the FFEL or DL programs that is eligible for inclusion in a Consolidation Loan (described below). To obtain a Consolidation Loan under the FFEL program, an applicant must have borrowed one or more eligible loans under either the FFEL or DL programs. Borrowers seeking to obtain an FFEL program Consolidation Loan may apply to borrow from any eligible lender participating in the FFEL program.[32] In general, to obtain a Consolidation Loan under the DL program, an applicant must have borrowed one or more eligible loans under the DL program. However, an applicant who has borrowed under the FFEL program, but not the DL program, may obtain a Consolidation Loan under the DL program if the borrower (1) is unable to obtain a Consolidation Loan from an FFEL program lender, (2) is unable to obtain an FFEL Consolidation Loan with income-sensitive repayment plan terms acceptable to the borrower,[33] or (3) intends to apply for loan forgiveness through Loan Forgiveness for Public Service Employees program under the DL program.

A Consolidation Loan must be comprised of at least one eligible FFEL or DL program loan, and may contain other types of federal student loans. The types of FFEL and DL program loans eligible for inclusion in a Consolidation Loan are Subsidized Stafford Loans, Unsubsidized Stafford Loans, PLUS Loans, and in certain instances Consolidation Loans (discussed below). Other types of federal student loans made outside of the FFEL and DL programs are also eligible for inclusion in Consolidation Loans. These loan types (some of which are no longer being disbursed), are: Federal Perkins Loans; Guaranteed Student Loans; Federal Insured Student Loans; National Direct Student Loans; National Defense Student Loans; Supplemental Loans for Students (SLS); Auxiliary Loans to Assist Students (ALAS); Health Education Assistance Loans (HEAL); and Public Health Service Act Health Professions Student Loans (HPSL), Loans for Disadvantaged Students (LDS), and Nursing Loans.

Applicants for Consolidation Loans must be either (1) in repayment status, (2) in the grace period before entering repayment, or (3) in default, but have made satisfactory repayment arrangements for their loans, or have agreed to repay according to the FFEL program income-sensitive repayment plan or the DL program income-contingent repayment plan. For a borrower with a defaulted loan, making "satisfactory repayment arrangements" for purposes of obtaining a

[32] If an FFEL lender secures an insurance agreement to make Consolidation Loans, the lender may offer Consolidation Loans (upon request) to all borrowers for whom the lender is the sole loan holder. Also, if FFEL program lenders opt to make Consolidation Loans, they may not discriminate against borrowers seeking to obtain a Consolidation Loan, based upon (1) the number and type of eligible student loans the borrower seeks to consolidate (with certain exceptions); (2) the type of institution the borrower attended; or (3) the interest rate to be charged to the borrower (which depends on the types of loans being consolidated and when they were first disbursed). Additionally, FFEL program lenders may not discriminate with regard to the types of repayment schedules they make available to borrowers.

[33] Effective July 1, 2009, an applicant who has borrowed under the FFEL program, but not the DL program, may also obtain a Consolidation Loan under the DL program if the borrower is unable to obtain an FFEL Consolidation Loan with income-based repayment plan terms acceptable to the borrower.

Consolidation Loan means that the defaulted borrower has made at least three consecutive voluntary full monthly payments within 15 days of the due date. However, borrowers who are in default and who are subject to a court judgement or wage garnishment are not eligible to obtain Consolidation Loans.

In general, a set of loans may be consolidated only once. However, in select circumstances a Consolidation Loan may be "reconsolidated." Loans made to borrowers within 180 days prior to or after the date of obtaining a Consolidation Loan may be added to the Consolidation Loan. Borrowers of existing Consolidation Loans who have other eligible loans that have not been consolidated, or who subsequently obtain other eligible loans, may consolidate those loans with their existing Consolidation Loans for purposes of obtaining new Consolidation Loans. Borrowers of FFEL program Consolidation Loans, whose loans have been referred to a guaranty agency for default aversion assistance, may reconsolidate into the DL program for purposes of repaying according to the income-contingent repayment (ICR) plan.[34] Finally, borrowers of FFEL program Consolidation Loans may reconsolidate into the DL program for the purposes of applying for loan forgiveness through Loan Forgiveness for Public Service Employees program under the DL program, or receiving the no accrual of interest for active duty service members benefit available to borrowers of DL program loans.

Interest Rates

At present, interest rates on Consolidation Loans made under both the FFEL and DL programs are determined by taking the weighted average of the interest rates on the loans being consolidated, and rounding the result up to the nearest higher one-eighth of 1%, with a cap of 8.25%. The common Consolidation Loan interest rate formula currently used for both programs was established under the Higher Education Amendments of 1998. Previously, the interest rate formulas used in the FFEL and DL programs differed. A history of the interest rate formulas for Consolidation Loans that have been in effect over the course of the FFEL and DL programs is presented in **Table** (see **Appendix B**).

Loan Consolidation During the Grace Period

Borrowers are able to consolidate their loans while in the six-month grace period after ceasing to be enrolled on at least a half-time basis. Consolidating during the grace period provides borrowers of variable-rate Stafford Loans (which were disbursed between October 1, 1992 and June 30, 2006) the opportunity to use the grace period interest rate (which is 0.6 percentage points lower than the repayment rate) in the "weighted average calculations" used to determine the fixed rate for the Consolidation Loan.

Loan Consolidation and Borrower Benefits

Under both the FFEL and DL programs, lenders are required to disclose to borrowers of Consolidation Loans whether consolidation of FFEL or DL program loans would result in the loss

[34] Effective July 1, 2009, borrowers of FFEL program Consolidation Loans, whose loans have been referred to a guaranty agency for default aversion assistance or whose loans are already in default, may reconsolidate into the DL program for purposes of repaying according to the ICR or income-based repayment (IBR) plans. (The ICR and IBR plans are described below).

of any loan benefits, including loan forgiveness, cancellation, or deferment; and that the consolidation of a Perkins Loan will result in a loss of the in-school deferment benefit and loan cancellation benefits.

Borrowers who consolidate Subsidized Stafford Loans with other types of unsubsidized loans retain the interest subsidies applicable to Subsidized Stafford Loans on the portion of the Consolidation Loan represented by Subsidized Stafford Loans. For borrowers of these loans, the Secretary of Education (the Secretary) pays the interest that accrues while they are in school, and during grace deferment periods. This benefit has always been afforded to borrowers of DL program Consolidation Loans, and was extended to borrowers of FFEL program Consolidation Loans under the Emergency Student Loan Consolidation Act of 1997 (part of P.L. 105-78, the Departments of Labor, Health and Human Services, and Education, and Related Agencies Appropriations Act for 1998).

Student Loan Discounts and Repayment Incentives

As described above, statutory and regulatory provisions of the FFEL and DL programs establish the maximum interest rates and fees that may be paid by borrowers. In the FFEL program, the lender is required to pay the origination fee to the federal government; and the lender can choose whether or not to pass the entire fee on to the borrower, within certain limitations.[35] The default fee (which defrays federal default costs) is paid to the guaranty agency for the guarantor's locally held federal reserve fund. If the default fee is paid by the borrower, it must be deducted proportionally from the proceeds of the loan prior to payment to the borrower. The default fee may also be paid by other non-federal sources (e.g., by the lender or the guarantor).

Lenders in the FFEL program have often competed for borrowers by offering different packages of interest rate and fee discounts. To attract borrowers, lenders might pay origination fees or default fees without passing on the cost to students. Similarly, to attract loan business, guaranty agencies might opt to pay the default fee. The practice of waiving fees may have started as the FFEL loan industry began experiencing competition from the DL program, although lenders also compete with each other for business.

Likewise, under the DL program, the Secretary is authorized to offer borrowers interest rate reductions as a means of encouraging on-time repayment.[36] Any such reductions made under the DL program must be cost neutral to the government. This section briefly describes examples of the types of loan discounts and interest rebates that have commonly been offered to borrowers of loans made under the FFEL and DL programs.[37]

[35] FFEL lenders that charge an origination fee must generally assess the same fee to all borrowers. An exception to this rule is that a lender may assess a lesser origination fee for a borrower whose EFC is equal to or less than the maximum qualifying EFC for a Pell Grant. See 34 C.F.R. § 682.202(c).

[36] HEA, § 455(b)(8); 34 C.F.R. § 685.211(b).

[37] The student loan discounts and repayment incentives described in this section may be made available to borrowers, but are not required to be provided.

Loan Discounts Under the FFEL Program

Lenders have broad discretion in whether to offer loan discounts and in how they structure these benefits. A wide variety of student loan discounts have typically been offered by lenders making loans under the FFEL program—for example, paying fees on behalf of a borrower, or offering interest rate reductions. Some benefits might be structured such that they may only be realized if the borrower successfully makes a specified number of consecutive on-time payments (e.g., 12, 24, or 36). Benefits that are not provided until well into the repayment period, however, may not be beneficial to borrowers who desire to pay off their loans early or who consolidate their loans, as in such instances, these benefits may be lost. Some of the most common types of loan discounts offered by FFEL program lenders are described below.[38]

Origination Fee and/or Default Fee Paid by Lender

Sometimes, lenders pay the loan origination fee on behalf of borrowers; and sometimes either lenders or guaranty agencies also pay the 1% default fee. This allows borrowers to apply a greater percentage (up to 100%) of the amount borrowed toward their education expenses. Otherwise, as described above, when borrowers are required to pay origination and default fees on their loans, their net disbursement, or the amount of loan proceeds that may be applied toward education expenses, is less than their gross disbursement, or the total amount borrowed which must be repaid.

Interest Rate Reductions

Lenders may offer interest rate reductions to borrowers who reach certain milestones. For example, a lender may provide a borrower an interest rate reduction at graduation, or an interest rate reduction after making a specified number of consecutive on-time payments (e.g., a one percentage point reduction after making a certain number of on-time payments). Interest rate reductions also may be offered to borrowers who sign up for electronic debit account (EDA) repayment, whereby loan payments are automatically deducted from the borrower's checking or savings account (e.g., a 0.25 percentage point interest rate reduction for EDA repayment).

Principal Balance Reductions

Some lenders offer principal balance reductions or account credits to borrowers who reach certain milestones. For example, a principal balance reduction of a certain amount (e.g., 1%) might be granted upon graduation or upon entering repayment. Principal balance reductions might also be offered upon making a series consecutive of on-time payments (e.g., 1% after 12, 24, and 36 on-time payments).

[38] For additional examples of student loan discounts offered by lenders, see *FinAid.org*, "Student Loan Discounts," at http://www.finaid.org/loans/studentloandiscounts.phtml; and *Greentree Gazette*, "Online Student Loan Buying Guide," at http://studentloanlistings.com/.

Forgiveness of Last Several Payments

Some lenders may offer to forgive the last several payments on a borrower's loan (e.g., the last six payments).[39] This type of benefit may be structured so that it only applies to payments 115 through 120 of a 120 payment schedule. (Thus, borrowers who consolidate or repay their loans in less than 115 payments would not realize this benefit.)

Repayment Incentives Under the DL Program

Currently, two repayment incentive programs are offered to borrowers of Stafford Loans and PLUS Loans made under the DL program: (1) an up-front interest rebate; and (2) an interest rate reduction for EDA repayment. Borrowers may take advantage of either or both.

Up-front Interest Rebate

Borrowers of Stafford Loans and PLUS Loans made under the DL program currently receive a 1.5% up-front interest rebate. The rebate is equal to a percentage of the principal loan amount borrowed and it is applied by increasing the borrower's loan proceeds, or the borrower's net disbursement.[40] To retain the interest rebate amount, the borrower must make the first 12 monthly payments on time. If not all of the first 12 monthly payments are made on time, the rebate amount is added back to the borrower's loan principal, increasing the loan amount that must be repaid.

Interest Rate Reduction for EDA Repayment

Borrowers may opt to make payments on their student loans using EDA repayment. Under this option, student loan payments are automatically deducted from a borrower's checking or savings account. This option helps ensure that borrowers make their student loan payments on time. While repaying under the EDA repayment option, borrowers receive a 0.25% interest rate reduction on their student loans. The interest rate reduction for EDA repayment does not apply during in-school, grace, deferment, or forbearance periods.

[39] The discharge of student loan indebtedness, such as through the forgiveness of loan payments or principal balance reductions, generally results in the amount forgiven or repaid being considered taxable income under the Internal Revenue Code (IRC). For additional information on this topic, see "Exclusion of Income Attributable to the Discharge of Certain Student Loan Debt and NHSC Educational Loan Repayments," pp. 455-458 in S.Prt. 109-072, *Tax Expenditures: Compendium of Background Material on Individual Provisions*, 2006.

[40] For details on the DL up-front interest rebate, see U.S. Department of Education, Direct Loan Bulletin (DLB) 01-19, "Implementing Up-front Interest Rebate in Disbursement Calculations," June 2001, at http://www.ifap.ed.gov/dlbulletins/dlb0119.html.

Loan Repayment

In General

Beginning of Repayment

The repayment period for Stafford Loans begins six months and one day after the borrower first ceases to be enrolled on at least a half-time basis in an eligible program. (This six-month period is commonly referred to as the six-month grace period.)[41] The repayment period for PLUS Loans and Consolidation Loans begins the day the loan is fully disbursed. The repayment period for Stafford Loans, PLUS Loans, and Consolidation Loans excludes any periods of authorized deferment and forbearance (described below). The first payment on Stafford Loans, PLUS Loans, and Consolidation Loans is due no later than 60 days after the beginning of the repayment period. For a borrower who is exiting a period of deferment or forbearance, the first or next subsequent payment is due no later than 60 days after the end of the deferment or forbearance period.

Treatment of Interest Before Entering Repayment

For borrowers of Subsidized Stafford Loans, the federal government pays the interest that accrues while borrowers are enrolled in school on at least a half-time basis, during a six-month grace period thereafter, and during periods of authorized deferment (discussed below). In contrast, borrowers of Unsubsidized Stafford Loans and PLUS Loans are responsible for paying this interest. Borrowers of Unsubsidized Stafford Loans and PLUS Loans may pay the interest that accrues while they are enrolled in school and during the six-month grace period, either on a monthly or quarterly basis; otherwise, this interest is capitalized, or added to the loan principal.

Prepayment

Borrowers of FFEL and DL program loans may repay their loans ahead of schedule and may not be assessed a penalty for doing so.

Repayment Plans

Borrowers of FFEL and DL program loans are given the opportunity to choose from among a series of repayment plan options for the repayment of their loans. The particular repayment plans available to borrowers depend on the type of loan borrowed and under which program the loan was made. The availability of certain repayment plans to individual borrowers also may depend on when they became new borrowers or when they entered repayment.

The standard repayment plan, graduated repayment plan, and extended repayment plan options are available to borrowers of both FFEL and DL program loans. The income-sensitive repayment

[41] The six-month grace period excludes any period of up to three years during which a borrower who is a member of a reserve component of the Armed Forces is called or ordered to active duty for a period of more than 30 days, as well as any additional period necessary for such a borrower to resume enrollment at the next available regular enrollment period.

(ISR) plan is available only to borrowers of FFEL program loans. The income-contingent repayment (ICR) plan and alternative repayment plans are available only to borrowers of DL program loans. On July 1, 2009, the income-based repayment (IBR) plan will become available to borrowers of loans made under both the FFEL and DL programs (except parent borrowers of PLUS Loans and borrowers of Consolidation Loans containing PLUS Loans made to parent borrowers).

Prior to the enactment of the HERA, there were many differences between the repayment plans available to borrowers of FFEL program loans and the corresponding repayment plans available to borrowers of DL program loans.[42] Those repayment plans that are available both to borrowers of FFEL program loans and borrowers of DL program loans—standard repayment, graduated repayment, extended repayment, and IBR[43]—are now aligned to be consistent across both loan programs.

If a borrower fails to select a repayment plan, the borrower is provided a standard repayment plan. Borrowers of FFEL program loans may switch to another repayment plan once annually; and borrowers of DL program loans may switch plans at any time.[44] No repayment plan may require a borrower to repay a loan in less than five years, unless the borrower specifically requests a shorter period. Under the standard repayment, graduated repayment, extended repayment, and income-sensitive repayment plans, payment amounts may not be less than the interest due.[45]

Under the FFEL program, to the extent practicable, all loans borrowed by an individual from a particular lender must be combined into a single account and repaid according to the same repayment plan. Under the DL program, all of a borrower's DL program loans must be repaid according to the same repayment plan; except that a borrower of PLUS Loans may repay those loans under a different repayment plan than used to repay his other loans. The repayment plans available to borrowers of FFEL and DL program loans are discussed below.

Standard Repayment Plan

Repayment according to a standard repayment plan presents a borrower with a predictable monthly payment amount. According to the standard repayment plan, borrowers of Subsidized Stafford Loans, Unsubsidized Stafford Loans, and PLUS Loans make fixed monthly payments of no less than $50,[46] for a period of up to 10 years.[47] For loans with variable interest rates, the loan holder may annually adjust either the monthly payment amount or the length of the repayment

[42] Changes enacted under the HERA to the repayment plans for DL program loans became effective September 10, 2007. For additional information on these changes and the characteristics of pre-HERA repayment plans for DL program loans, see U.S. Department of Education, Direct Loan Bulletin, "New Direct Loan Repayment Plans and Changes in the Treatment of Consolidated PLUS Loans and Federal Perkins Loans," DLB-07-16, July 31, 2007, at http://www.ifap.ed.gov/dlbulletins/DLB0716.html.

[43] The IBR plan becomes available to borrowers July 1, 2009.

[44] The Secretary may require a borrower who has defaulted on an FFEL or DL program loan to repay according to the ICR plan.

[45] Income-contingent repayment, income-based repayment, and alternative repayment plans permit negative amortization (see glossary for definition).

[46] The last payment may be for less than $50.

[47] Under the standard repayment plan, a repayment period of up to 10 years also applies to DL program Consolidation Loans for borrowers who entered repayment before July 1, 2006.

period. If the repayment amount remains the same on a variable rate loan, and the change in the interest rate would result in a borrower being unable to complete repayment within the 10-year maximum, the loan holder must provide administrative forbearance for a maximum of three years (effectively extending the repayment period).

For borrowers of Consolidation Loans, a minimum monthly payment of $50 applies, however, longer repayment periods may be applicable depending on the borrower's outstanding loan balance at the time of entering repayment.[48] The repayment period on a Consolidation Loan is based on the combined balances of the Consolidation Loan and all other federal student loans owed by the borrower. (However, for purposes of determining the repayment period, the balance of other federal student loans may not exceed the balance of the Consolidation Loan.) Repayment periods for Consolidation Loans repaid according to the standard repayment plan are shown in **Table 4.** (The repayment periods shown also apply to the graduated and income-sensitive repayment plans).

Table 4. Repayment Periods for Consolidation Loans Repaid According to the Standard, Graduated, and Income-Sensitive Repayment Plans

Combined Loan Balance at Repayment	Maximum Repayment Period
Less than $7,500	10 years
$7,500, but less than $10,000	12 years
$10,000, but less than $20,000	15 years
$20,000, but less than $40,000	20 years
$40,000, but less than $60,000	25 years
$60,000 or more	30 years

Source: HEA, §§ 428C(c)(2) and 451.

Graduated Repayment Plan

Repayment according to a graduated repayment plan is structured so that a borrower's monthly payment amount changes over the course of the repayment period. In general, payments will increase over time, consistent with the assumption that a borrower's income will generally increase over the duration of the repayment period. Thus, when repaying according to a graduated repayment plan, a borrower makes smaller payments at first, and larger payments later on. The range of monthly payment amounts is limited so that no payment may be more than 3 times the amount of any other.[49] This is to avoid offering very low initial payment amounts and excessively high ending payment levels which could contribute to borrower default. For Stafford Loans and PLUS Loans, monthly payments may be no less than the greater of $50, or the interest that accrues between payments; and repayment must occur within 10 years. For loans with variable interest rates, the loan holder may annually adjust either the monthly payment amount or the length of the repayment period. In a manner similar to the standard repayment plan, if the

[48] The repayment periods discussed here are applicable to FFEL program Consolidation Loans and to DL program Consolidation Loans to borrowers who enter repayment on or after July 1, 2006. The 10-year repayment period applies to borrowers of DL program Consolidation Loans who entered repayment before July 1, 2006 and who repay according to the standard repayment plan.

[49] See 34 CFR § 682.209(a)(7)(ii); and 685.209.

repayment amount remains the same on a variable rate loan, and the change in the interest rate would result in a borrower being unable to complete repayment within the 10-year maximum, the loan holder must provide administrative forbearance for a maximum of three years.

For Consolidation Loans repaid according to a graduated repayment plan, monthly payment amounts may be adjusted over a period of time ranging from 10 to 30 years, depending on the borrower's outstanding loan balance at the time of entering repayment.[50] Similar to the standard repayment plan, determination of the repayment period is based on the combined balances of the Consolidation Loan and all other federal student loans owed by the borrower. Repayment periods for Consolidation Loans repaid according to the graduated repayment plan are shown in **Table 4**.

Extended Repayment Plan

Repayment according to an extended repayment plan affords borrowers with larger total loan balances the opportunity to make lower monthly payments over a longer repayment period. Extended repayment plans are available to individuals who are new borrowers on or after October 7, 1998; and who, after that date, accumulate an outstanding loan balance totaling more than $30,000 under either the FFEL program or the DL program.[51] Borrowers of Stafford Loans, PLUS Loans, and Consolidation Loans repaying according to the extended repayment plan must make fixed or graduated monthly payments of at least $50; and the repayment period may not exceed 25 years.

Income-Sensitive Repayment Plan

Under an income-sensitive repayment plan, monthly payment amounts are adjusted annually according on the borrower's income. Income-sensitive repayment plans are available only to borrowers of FFEL program loans. For Stafford Loans and PLUS Loans, monthly payments may be no less than the greater of $50, or the interest that accrues between payments; and repayment must occur within 10 years. Similar to the graduated repayment plan, no payment may be more than three times the amount of any other. However, if a borrower's income is too low to make payments in amounts to repay the loan within 10 years, the loan holder must provide administrative forbearance for a period of up to five years. For variable interest rate loans, the loan holder may annually adjust either the monthly payment amount or the length of the repayment period. In addition, if the repayment amount remains the same on a variable rate loan, and the change in the interest rate would result in a borrower being unable to complete repayment within the 10-year maximum, the loan holder must provide administrative forbearance for a maximum of five years.

For Consolidation Loans repaid according to an income-sensitive repayment plan, monthly payment amounts may be adjusted based changes in a borrowers income over a period of time that may range from 10 to 30 years, depending on the borrower's outstanding loan balance at the

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[50] The repayment periods discussed here are applicable to FFEL program Consolidation Loans and to DL program Consolidation Loans to borrowers who enter repayment on or after July 1, 2006. A 10-year repayment period applies to borrowers of DL program Consolidation Loans who entered repayment before July 1, 2006, and who repay according to the standard repayment plan.

[51] Prior to September 10, 2007, a different extended repayment plan was available to all borrowers of DL program loans. Under this prior version of the extended repayment plan, the repayment period ranged from 12 to 30 years, depending on the borrower's student loan debt.

time of entering repayment.[52] Similar to the standard repayment plan, determination of length of the repayment period is based on the combined balances of the Consolidation Loan and all other federal student loans owed by the borrower. Repayment periods for Consolidation Loans repaid according to the income-sensitive repayment plan are shown in **Table 4**.

Income-Contingent Repayment Plan

Repayment according to the ICR plan affords borrowers the opportunity to make payment amounts based on the relationship between their student loan debt and their income. It also affords borrowers who experience prolonged periods with low incomes the prospect of debt forgiveness. The ICR plan is available to borrowers of Stafford Loans and most borrowers of Consolidation Loans made under the DL program. It is not currently available to borrowers of PLUS Loans.[53] Beginning July 1, 2009, graduate and professional student borrowers of PLUS Loans, but not parent borrowers, will become eligible to repay PLUS Loans according to the ICR plan. Under the ICR plan, annual payments (which are divided by 12 for the monthly amount) are adjusted annually based on the borrower's outstanding loan balance at the time of entering repayment, adjusted gross income (AGI), and family size according to criteria established by the Secretary in regulations.[54] Consistent with these criteria, payment amounts are the lesser of (1) the amount calculated according to a 12-year repayment period, multiplied by an income percentage factor that corresponds to the borrower's AGI;[55] or (2) 20% of the amount by which the borrower's AGI exceeds the poverty line.[56] Monthly payment amounts may range from $0 for borrowers with incomes at or below the poverty line to amounts more than sufficient to repay the loan in 12 years for borrowers with high incomes. Thus, a borrower at the poverty level or below would not be required to make any payment. For borrowers whose monthly payment amount is greater than $0, but less than $5, a $5 minimum monthly payment is required.

Under the ICR plan formula, it is possible that a borrower's monthly payment amount may be less than the accrued interest on his loan. When this happens, the unpaid interest is capitalized. (This is also referred to as negative amortization.) The rules for the ICR plan specify that capitalization of unpaid interest may not result in the balance of the loan exceeding 110% of the original principal amount. If this occurs, any additional interest that accrues must be paid by the borrower.

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[52] The repayment periods discussed here are applicable to FFEL program Consolidation Loans and to DL program Consolidation Loans to borrowers who enter repayment on or after July 1, 2006. The 10-year repayment period applies to borrowers of DL program Consolidation Loans who entered repayment before July 1, 2006 and who repay according to the standard repayment plan.

[53] At present, neither borrowers of PLUS Loans nor borrowers of PLUS Consolidation Loans made before July 1, 2006 are eligible for the ICR plan. However, borrowers of Consolidations Loans made on or after July 1, 2006, that contain PLUS Loans may repay according to the ICR plan.

[54] 34 C.F.R. § 685.209. A unique characteristic of the ICR plan is that two married borrowers of DL program loans may repay their loans jointly based on their combined loan balances. Payment amounts are credited to each borrower's account in proportion to their outstanding loan balance.

[55] The income percentage factors range from 50.52% to 200%, depending on income and income tax filing status. See U.S. Department of Education, Direct Loan Bulletin, "2008 HHS Poverty Guidelines and Income Percentage Factors," DLB-08-08, March 18, 2008, at http://www.ifap.ed.gov/dlbulletins/0318DLB0808.html. For additional information on the ICR Plan formula, see U.S. Department of Education, Office of Federal Student Aid, "Notice of the annual updates to the Income Contingent Repayment (ICR) plan formula for 2007," 72 *Federal Register*, 26803-26808.

[56] *HHS Poverty Guidelines for All States (except Alaska and Hawaii) and the District of Columbia*, 2008, at http://aspe.hhs.gov/poverty/08poverty.shtml. In 2008, for a family of one, the HHS poverty guideline is $10,400; for a family of two it is $14,000; for a family of three it is $17,600; and for a family of four it is $21,200.

As a condition of repaying according to the ICR plan, borrowers must provide written consent for the Internal Revenue Service (IRS) to disclose their taxpayer identity information, their tax filing status, and their AGI to ED.[57] For purposes of the ICR plan, AGI includes the income of the borrower and the borrower's spouse, if applicable.

Income-Based Repayment Plan

The IBR plan is a newly authorized repayment plan which, like ISR and ICR plans, is designed to present borrowers the opportunity to make monthly payment amounts based on the relationship between their student loan debt and their income. Also, like the ICR plan, it affords borrowers who experience prolonged periods of low income the prospect of debt forgiveness. The IBR plan will be available to borrowers of loans made under both the FFEL and DL programs; whereas the ISR is only available to borrowers of FFEL program loans, and the ICR plan is only available to borrowers of DL program loans. Also, in contrast to other repayment plans which are generally available to borrowers, a borrower must be experiencing a "partial financial hardship" (described below) in order to qualify to repay according to the IBR plan.

Effective July 1, 2009, the IBR plan becomes available to borrowers of FFEL and DL program loans (except parent borrowers of PLUS Loans, and borrowers of Consolidation Loans used to repay PLUS Loans made to parent borrowers) for any period after that date during which they demonstrate having a partial financial hardship. Borrowers will be determined to have a partial financial hardship if their total annual payments on eligible FFEL and DL program loans, calculated according to a standard 10-year repayment period at the time of initially entering repayment, are greater than 15% of the amount by which their AGI exceeds 150% of the poverty line.

For example, in 2008, 150% percent of the poverty line for a family of 1 is $15,600.[58] Thus, a single borrower with an adjusted gross income of $40,000 would have a partial financial hardship if his annual student loan payments were greater than $3,360, or $280 per month. ($3,360 is 15% of the result from subtracting $15,600, from $40,000.)

While repaying according to the IBR plan, monthly amounts due on borrowers' loans may range from $0, for borrowers with incomes at or below the poverty line, to a maximum of one-twelfth of 15% of any amount by which their AGI exceeds 150% of the poverty line. If borrowers repaying according to the IBR plan no longer demonstrate a partial financial hardship or no longer desire to repay according to the IBR plan, then their maximum required monthly payment amounts may not exceed the "initial" monthly amount due, as calculated according to a standard 10-year repayment period based on their loan balance at the time of their election to begin repaying according to the IBR plan. Accordingly, repayment periods for such borrowers may exceed 10 years.

For a married borrower who files a joint federal income tax return, payment amounts under the IBR plan will be based on the applicable borrower's student loan debt and both spouses' combined AGI. However, for a married borrower who files a separate federal income tax return, payment amounts under the IBR plan will be based solely on that individual's student loan debt

[57] 34 C.F.R. § 685.209(c)(7).

[58] For additional information on poverty guidelines, see U.S. Department of Health and Human Services, "2008 HHS Poverty Guidelines," at http://aspe.hhs.gov/POVERTY/08poverty.shtml.

and AGI. (There is not an opportunity under the IBR plan for married borrowers to repay their loans jointly, comparable to the ICR plan.)

Payments made by borrowers repaying under the IBR plan must first be credited to interest due on the loan, then to any fees, and then to principal. If a borrower's required payment is not sufficient to cover the interest that accrues on a subsidized Stafford Loan (or the subsidized portion of a Consolidation Loan), the interest not covered will be paid by the Secretary for a period not to exceed three years.[59] Any unpaid interest that accrues on an unsubsidized loan,[60] or on a Subsidized Stafford Loan after the three-year period, will be capitalized (i.e., added to the principal balance of the loan) at the time a borrower no longer demonstrates a partial hardship or elects to no longer repay according to the IBR plan. If a borrower's required monthly payment is not sufficient to repay the amount of principal due, then the payment of any principal due will be postponed until the borrower no longer has a partial financial hardship or leaves the IBR plan.

Borrowers who at any time participate in the IBR plan become eligible to have any balance remaining on their loan after 25 years forgiven by the Secretary if they:

- made reduced monthly payments while experiencing a partial financial hardship;
- made recalculated monthly payments after leaving the IBR plan, or upon no longer having a partial financial hardship;
- made monthly payments on all outstanding FFEL and DL program loans in repayment (other than parent PLUS Loans) under another repayment plan of not less than the amount required under the standard repayment plan, based on a 10-year repayment period;
- made payments under the income-contingent repayment plan; or
- received an economic hardship deferment.

Alternative Repayment Plans

The Secretary may establish alternative repayment plans for borrowers of DL program loans who demonstrate that they are unable to repay according to other available repayment plans due to exceptional circumstances. If the Secretary agrees to permit a borrower to repay according to an alternative repayment plan, the Secretary notifies the borrower in writing of the terms of the plan, and the borrower may either accept those terms or select one of the other available repayment plans discussed above. Under an alternative repayment plan, the borrower may be provided up to 30 years to repay, not including periods of deferment and forbearance. Alternative repayment plans may permit a borrower to make monthly payments for less than the amount of the accrued interest on the loan, with any unpaid interest being capitalized. Capitalization of unpaid interest may not result in the balance of the loan exceeding 110% of the original principal amount. If this occurs, any additional interest that accrues must be paid by the borrower.

[59] Periods during which a borrower receives a deferment for economic hardship are excluded from this three-year period.

[60] Unsubsidized loans include Unsubsidized Stafford Loans, PLUS Loans, and portions of Consolidation Loans attributable to the repayment of such loans.

Borrower Repayment Relief

Several forms of repayment relief are available to borrowers of loans made under the FFEL and DL programs who may be experiencing difficulty in making payments on their student loans. These benefits are broadly categorized as deferments, forbearance, and interest rate benefits for active duty servicemembers.

Deferment and forbearance are the primary means through which borrowers may be temporarily relieved of their obligation to make scheduled loan payments. Periods during which borrowers are in deferment or forbearance are generally excluded from the repayment period. (An exception applies in the case of the IBR plan, for which periods in economic hardship deferment are included in the 25-year repayment period, after which borrowers become eligible for loan forgiveness.) In addition, interest rate benefits may be available to certain categories of active duty servicemembers. Deferments, forbearance, and interest rate benefits may help borrowers avoid defaulting on their loans, as well as help prevent student loan debt and the accrual of interest and fees from inhibiting their pursuit of further studies. These forms of borrower repayment relief are described below.

Deferments

A deferment is the temporary cessation of a borrower's obligation to repay loan principal and interest, usually limited by law to a specific period of time, and contingent upon the borrower meeting certain conditions. Deferments enable borrowers to suspend loan repayment while they, or the individual on whose behalf the loan was made (for parent borrowers of PLUS Loans), are pursuing additional postsecondary education, during periods of unemployment or economic hardship, and during certain periods of military service.

In general, deferments are borrower specific—that is, once a borrower has received a deferment for the period specified in law (if limited), the borrower is not eligible to receive an additional deferment for the same condition, even if subsequently borrowing additional loans. Because of frequent amendments, the types of deferment for which borrowers are eligible can vary according to when the loan is disbursed, the type of loan, and whether the borrower has an outstanding balance on other loans. The Higher Education Amendments of 1992 (P.L. 102-325) made major changes to deferments by consolidating the terms according to which borrowers may qualify. In general, until July 1, 1993, one set of conditions for deferments applied.[61] Beginning July 1, 1993, new conditions became applicable to new borrowers, who prior to that date had no outstanding balance on FFEL or DL program loans. Subsequently, additional types of deferments with different effective dates have been made available. Finally, some types of deferments have recently been made available to borrowers irrespective of when they became a new borrower.

[61] Borrowers with outstanding loan balances prior to July 1, 1993 remain eligible to defer repayment of their loans—including loans borrowed after that date—under a broader set of criteria than are available to individuals who first borrowed after that date. For instance, they may defer loans during periods of service in the U.S. Armed Forces, the Peace Corps, VISTA, or the Public Health Service; while serving as a medical intern or resident; or while teaching in shortage areas. Eligibility criteria for deferments for borrowers with outstanding loan balances prior to July 1, 1993 are specified in regulations codified at 34 C.F.R. § 682.210.

For Subsidized Stafford loans (and the portion of Consolidation Loans attributable to the repayment of Subsidized Stafford Loans), the federal government pays the interest that accrues during the deferment period. For all other loans, the borrower is responsible for the payment of accrued interest—either by making such payments monthly or quarterly, or by having the interest added to their principal balance (i.e., capitalized) at the end of period of deferment.

The following types of deferments are available to borrowers of loans currently being disbursed.

In-School Deferment

Borrowers are eligible for an in-school deferment for any period during which they are pursuing at least a half-time course of study as determined by the eligible institution attended.

In-School and Grace Period Deferment for PLUS Loans

Parent borrowers of PLUS Loans for which the first disbursement is made on or after July 1, 2008, are eligible for a deferment for any period during which the student on whose behalf the loan was made would qualify for an in-school deferment. Also, parent borrowers and graduate and professional student borrowers of PLUS Loans first disbursed on or after July 1, 2008, are eligible for a deferment during the six-month grace period after the student on whose behalf the loan was made first ceases to be enrolled on at least a half-time basis.

Graduate Fellowship Deferment

This deferment is available to borrowers while pursuing a course of study pursuant to a graduate fellowship program approved by the Secretary. Graduate fellowship deferments are not available to borrowers who are serving in medical residency or internship programs, except for residency programs in dentistry.

Rehabilitation Training Program Deferment

This deferment is available to borrowers while pursuing a course of study pursuant to a rehabilitation training program for disabled individuals approved by the Secretary.

Unemployment Deferment

This type of deferment is available to borrowers who are unemployed, as evidenced by receipt of unemployment benefits, or their inability to secure employment after registering with a public or private employment agency. Borrowers are not required to have been previously employed to qualify for an unemployment deferment. A borrower may receive an unemployment deferment for a maximum cumulative period of three years. This may include one or more episodes of unemployment.

Economic Hardship Deferment

Currently, this type of deferment is available to borrowers of loans made under the FFEL and DL program if

- the borrower has been granted an economic hardship deferment under the FFEL, DL, or Perkins Loan program for the same period of time for which the borrower requests an economic hardship deferment;
- the borrower is receiving payments under a federal or state public assistance program (e.g., Temporary Assistance for Needy Families, Supplemental Security Income, Food Stamps);
- the borrower is working full-time and has a monthly income that does not exceed the greater of (1) the minimum wage rate, or (2) an amount equal to 150% of the poverty line applicable to the borrower's family size (as calculated on a monthly basis);
- the borrower is working full-time and has a federal education debt burden equal to or greater than 20% of his monthly income; and if the amount remaining after subtracting his debt burden from his monthly income is less than 220% of the greater of (1) the minimum wage rate, or (2) an amount equal to 150% of the poverty line applicable to the borrower's family size (as calculated on a monthly basis);[62]
- the borrower is not working full-time and (1) the borrower's monthly income does not exceed twice the amount that is the greater of (a) the minimum wage rate, or (b) an amount equal to 150% of the poverty line applicable to the borrower's family size (as calculated on a monthly basis); and (2) the borrower's remaining monthly income after deducting the amount of his monthly federal education debt burden does not exceed the greater of the amounts specified in (a) and (b) above; or
- the borrower is serving as a volunteer in the Peace Corps.

A borrower may receive an economic hardship deferment for periods of up to one year at a time, for a maximum cumulative period of three years.

Under the CCRAA, changes were made to the criteria according to which borrowers may qualify for an economic hardship deferment. Among other things, these changes eliminated what has been commonly referred to as the 20/220 pathway to an economic hardship deferment. Beginning July 1, 2009, borrowers will be able to qualify for an economic hardship deferment only according to the criteria presented above in the first, second, third, and sixth bullets. Borrowers who qualify for an economic hardship deferment according to criteria in effect prior to July 1, 2009, will be able to retain the deferment for a period of up to one year from the start date of the deferment. After that date, borrowers may only qualify for an economic hardship deferment according to the criteria in effect at the time of their request.[63]

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[62] For purposes of qualifying for an economic hardship deferment, federal educational debt burden is calculated on the basis of monthly loan payments amortized over a maximum period of 10 years.

[63] For additional information on the repeal of the 20/220 pathway to an economic hardship deferment, see Department of Education, "Federal Perkins Loan Program, Federal Family Education Loan Program, and William D. Ford Federal Direct Loan Program; Final Rule," 73 *Federal Register* 63232-63259, October 23, 2008.

Military Service Deferment

This type of deferment is available to all borrowers who are serving on active duty, or performing qualifying National Guard duty, during a war or other military operation or national emergency. The deferment is available for the period of qualifying service and for 180 days following the demobilization date for such service.

Post-Active Duty Student Deferment

This type of deferment is available to borrowers of FFEL and DL program loans who are members of the National Guard or other reserve component of the Armed Forces (or a member in retired status) and who are called or ordered to active duty while enrolled in an eligible institution, or within six months of being enrolled. The deferment is limited to borrowers who were serving on active duty on October 1, 2007, or who began active duty service after that date. Eligible borrowers may receive a post-active duty service deferment for the 13-month period following the conclusion of active duty service (or until re-enrollment). If a borrower qualifies for both the military service deferment and the post-active duty student deferment, the 180-day post-demobilization period and the 13-month post-active duty service period apply concurrently.

Forbearance

Forbearance is the practice under which lenders grant borrowers temporary relief from their obligation to repay because the borrower is willing but unable to meet regular payment obligations. A lender may provide forbearance by temporarily relieving a borrower from making payments, by extending the time for making payments, or by temporarily accepting payments in reduced amounts. Forbearance is usually used to prevent a loan from defaulting, but holders of defaulted loans may also use forbearance during collection on a defaulted loan.

Unlike deferments for Subsidized Stafford Loans for which the interest is paid by the federal government, any borrower who has been granted forbearance is liable for all the interest that accrues during the forbearance period. Any interest that accrues is capitalized at the end of the forbearance period. Also, unlike deferments, forbearance is typically granted at the option of the loan holder as opposed to being mandated, although in certain instances mandatory forbearance is required.

Borrowers must apply for forbearance, although they are not required to request forbearance in writing. For certain types of forbearance, borrowers must provide supporting documentation. Forbearance is usually granted in 12 month intervals, and borrowers must reapply each year. Maximum time limits depend on the type of forbearance granted. No adverse credit information may be provided to a consumer reporting agency solely because the borrower has been granted forbearance.

Mandatory Forbearance

Lenders are required to provide forbearance to borrowers in certain circumstances. Mandatory forbearance is available to borrowers

- who are medical or dental interns or residents and who do not or no longer qualify for a deferment, for the duration of their internship or residency;

- whose total federal student loan payments equal or exceed 20% of their monthly income, for up to three years;
- who are serving in a national service position for which the borrower receives an AmeriCorps national service educational award;
- whose federal student loan interest is being paid under a Department of Defense Armed Forces Student Loan Repayment program;
- who are teachers who would qualify for loan repayment under the FFEL and DL Teacher Loan Forgiveness programs, for up to five years of required service; and
- who are a member of the National Guard who qualify for a post-active duty student deferment, but do not qualify for a military service deferment or other deferment, and are engaged in active State duty for 30 or more consecutive days.

Mandatory Administrative Forbearance

Administrative forbearance is available to borrowers under limited conditions as authorized by the Secretary. As discussed earlier, administrative forbearance is available to borrowers for up to three years if changes to variable interest rates preclude a borrower's ability to repay the loan in 10 years under the standard or graduated repayment plans, and for up to five years if a borrower's income precludes the ability to repay in 10 years under the income-sensitive repayment plan.

Interest Rate Benefits for Active Duty Servicemembers

In certain instances, active duty service members may be eligible for interest rate benefits on their FFEL and DL program loans.

Servicemembers Civil Relief Act (SCRA)

Section 207 of the SCRA provides that for individuals who borrow loans after August 14, 2008, and who later enter military service, the interest rate on those loans must be capped at 6% for the duration of their military service.[64] Creditors must forgive interest above the rate of 6% and may not accelerate repayment of the loans.

No Accrual of Interest on DL Program Loans for Certain Active Duty Service Members

For DL program loans first disbursed on or after October 1, 2008, (including Direct Consolidation Loans used to repay the portion of FFEL program loans first disbursed on or after October 1, 2008) interest will not accrue during any period of up to 60 months while the borrower is serving on active duty or performing qualifying National Guard duty in an area of hostilities during a war or national emergency.

[64] For additional information on the SCRA, see CRS Report RL34575, *The Servicemembers Civil Relief Act (SCRA): Summary and Proposed Amendments*, by R. Chuck Mason.

Loan Default and its Consequences for Borrowers

As defined for purposes of the FFEL and DL programs, a defaulted loan is one on which the borrower has failed to make a required payment when due, or on which the borrower has otherwise violated the terms of the promissory note for 270 days (or 330 days if the loan is repayable in installments less frequent than monthly) if it is reasonable to conclude that he no longer intends to repay the obligation.[65]

Defaulted student loans are a significant problem both for the federal government and for borrowers. Losses due to defaults constitute a major cost component in the federal student loan programs. From the borrower's perspective, defaulting on a student loan can ruin credit and otherwise present a major obstacle to future economic well-being. The consequences of default for borrowers are discussed below.

Consequences of Default for Borrowers

When a loan goes into default, the borrower effectively loses certain rights and privileges associated with the loan (e.g., deferments and loan forgiveness). In addition, the agency in charge of collections (i.e., the FFEL guaranty agency or the DL contractor) can demand payment in full of all principal and interest due, as well as payment of collection costs.[66] There is no statute of limitations on student loan collections. All borrowers must be informed of the consequences of default as part of entrance counseling they receive when initially borrowing their loans. In addition, as part of its due diligence requirements, the agency in charge of collecting on a defaulted loan must apprise the defaulter of some of the major consequences of defaults. This section summarizes elements of the law designed to improve collections of defaulted loans.

Report to Consumer Reporting Agencies

By law, loan holders and the agencies in charge of collection are required to enter into agreements with national consumer reporting agencies to exchange information relating to student borrowers. Such agreements require the guaranty agency to report a loan default and the status of collections on that note. Consumer reporting agencies are authorized to report information on the status of a defaulter's account for seven years from the date the default claim is paid or, if the borrower reenters repayment after defaulting and subsequently defaults, for seven years from the date of the subsequent default.

Offset of Tax Refund

Defaulters are liable for any federal tax refund due them to be attached by the Internal Revenue Service (IRS) as repayment on their student loan. A number of states also attach refunds due on state income taxes to collect student loans.

[65] 34 C.F.R. §§ 682.200; and 685.102.

[66] At present, borrowers may be charged up to 18.5% of the outstanding principal balance for collection costs.

Offset of Social Security Benefits

Social Security benefits are subject to being offset up to 15% of the payment amount.

Wage Garnishment

Notwithstanding any state law to the contrary, guaranty agencies, or the Secretary in the case of loans held by ED, may garnish up to 15% of a defaulter's disposable pay to repay a defaulted student loan. "Disposable pay" is defined as that part of compensation remaining after deducting amounts required by law to be withheld. Defaulters must be given written notice of the intent to garnish and have rights to examine the debt record, have a hearing concerning the existence and amount of the debt or repayment terms, and to establish a repayment schedule before garnishment begins. In the past, garnishment has particularly been used as a tool against defaulters who are federal employees.

Ineligibility for Federal Student Aid

Students who have defaulted on an FFEL or DL program loan are ineligible for federal student aid under Title IV. Defaulter borrowers who make six consecutive monthly payments on their defaulted FFEL and DL loans may have their Title IV eligibility restored, but an individual borrower may benefit from this provision only once.

Civil Lawsuit

The ultimate tool used to collect on a defaulted student loan is litigation under which the agency in charge of collection sues the defaulter to compel repayment of the loan. Such civil suits are required to be instituted under the due diligence regulations unless the note is assigned to ED for collection through the IRS offset program, the lawsuit costs would exceed those of the likely recovery, or the borrower does not have the funds to satisfy the judgment on the debt or a large portion of it.

Loan Rehabilitation

Loan rehabilitation offers defaulted borrowers an opportunity to have their loan reinstated as an active loan and to have their borrower benefits and privileges restored. If, during a period of 10 consecutive months, a borrower who has defaulted on a loan makes nine monthly payments within 20 days of the due date according to a payment plan agreed to by the borrower and guaranty agency (or the Secretary), the loan may be sold to another lender, or (in the case of DL loans) reinstated. At this point, the loan is considered rehabilitated and the borrower again becomes eligible for full borrower privileges, such as deferments and loan forgiveness. In implementing these provisions, the guarantor or ED must require a monthly payment that is "reasonable and affordable" based on the borrower's financial circumstances. Borrowers whose defaulted loans are assigned to ED are offered the opportunity to obtain DL program Consolidation Loans.

Loan Discharge and Forgiveness

Loan Discharge

In accordance with the terms and conditions of loans made under the FFEL and DL programs, in certain circumstances borrowers may have all or a portion of their debt discharged or repaid by the federal government. These are described below.

Death or Disability

At present, liability for FFEL and DL program loans is discharged in the case of borrowers who die or become permanently and totally disabled. In addition, PLUS Loans to parent borrowers are discharged if the student on whose behalf the parent borrower obtained the loan dies (but not if the student becomes disabled).

Criteria to qualify for a disability discharge were amended under the HEOA. Effective July 1, 2010, FFEL and DL program loans will also be discharged for borrowers who are unable to engage in any substantial gainful activity due to a physical or mental impairment that can be expected to result in death or that has lasted continuously or can be expected to last continuously for 60 months. Also, effective July 1, 2010, borrowers who have been determined by the Secretary of Veterans Affairs to be unemployable due to a service-connected condition shall be considered permanently and totally disabled.

Bankruptcy

In most instances, federal student loans may not be discharged through personal bankruptcy actions brought under either Chapter 7 or Chapter 13 of the bankruptcy code.[67] However, if after filing for bankruptcy, a borrower successfully petitions a bankruptcy court and the court finds that repayment constitutes an undue hardship on the borrower and his dependents, federal student loans may be discharged in bankruptcy.[68]

Other

A borrower's liability for a loan (including any interest and collection fees owed by the borrower) may be discharged under any of the following circumstances if the borrower received the loan on or after January 1, 1986. Loans may be discharged if the student borrower (or the student on whose behalf a parent borrowed) was unable to complete an educational program because the school closed. Any period of the student's attendance at the institution at which the student was unable to complete the course of study because of closure is not counted against the total period of the student's eligibility for additional student aid. Borrowers are eligible for loan discharge if the school falsely certified the student's eligibility to borrow, including loans falsely certified as a result of identity theft. All or a portion of a borrower's loan liability may be discharged if an

[67] See 11 U.S.C. §§ 523 and 1328.

[68] For additional information on federal student loans and bankruptcy, see U.S. Department of Education, Federal Student Aid Ombudsman, "Bankruptcy," at http://www.ombudsman.ed.gov/bankruptcy.html.

institution fails to refund the appropriate amount of loan proceeds to a lender or to the Secretary on behalf of a borrower. In addition, Title IV eligibility is restored for borrowers who may have defaulted on a loan discharged under any of the above circumstances. Finally, the Third Higher Education Extension Act of 2006 (P.L. 109-292) authorized the discharge of the outstanding balance of loans made to individuals who were the spouses or parents[69] of individuals who died or became permanently and totally disabled as a result of the September 11, 2001 terrorist attacks.

Loan Forgiveness

The HEA authorizes several programs through which borrowers may have some portion of their FFEL or DL program loans forgiven, cancelled, or repaid as an incentive for entering certain occupations or professions, or for performing certain types of public service. Some loan forgiveness provisions are entitlements to qualified borrowers, meaning that mandatory funding is provided for loan forgiveness. Other loan forgiveness and repayment programs are discretionary and subject to the availability of funds made available in annual appropriations acts. In addition, borrowers may also be eligible to have their loans repaid through other non-HEA programs. Loan forgiveness and repayment programs authorized under Title IV, Parts B and D of the HEA are described below.

Loan Forgiveness for Teachers

Loan forgiveness for teachers is authorized for borrowers of FFEL and DL program loans.[70] Under the program, new borrowers, who had no outstanding balance on Title IV loans on or after October 1, 1998,[71] may be granted loan forgiveness after having served as a full-time teacher for five consecutive[72] complete school years in certain low-income schools or locations.[73] At least 1 of these school years must be after the 1997-1998 school year. Forbearance is available to borrowers during their five years of qualifying teaching service. Teacher loan forgiveness is an entitlement available to qualified borrowers. Two levels of loan forgiveness are available.

In General

Up to $5,000 in loan forgiveness is available to borrowers who have been employed for five consecutive complete school years as a full-time teacher in certain low-income schools or locations. Borrowers whose five-year period of service began on or after October 30, 2004 must

[69] Parents were eligible for the discharge of PLUS Loans borrowed on behalf of a child who was a victim of the September 11, 2001, terrorist attacks, and Consolidation Loans used to repay such loans.

[70] Loan forgiveness for teachers was enacted under the Taxpayer-Teacher Protection Act of 2004 (TTPA; P.L. 108-409), and was amended under the HERA and the HEOA.

[71] Thus, an individual with an outstanding loan balance on a Title IV loan before October 1, 1998 is ineligible for this program, unless the loan balance is paid in full before again borrowing under the FFEL or DL program.

[72] Breaks in service are authorized for borrowers who return to school to pursue additional education related to the qualifying teaching service, who have a condition covered under the Family and Medical Leave Act of 1993, or who are called or ordered to active duty for more that 30 days in a reserve component of the Armed Forces.

[73] These schools are defined as low-income for purposes of loan cancellation under the Federal Perkins Loan program. A Teacher Loan Forgiveness Low Income Directory is available at https://www.tcli.ed.gov/CBSWebApp/tcli/TCLIPubSchoolSearch.jsp.

be highly qualified teachers, as defined in the Elementary and Secondary Education Act (ESEA), § 9101.

Mathematics, Science, and Special Education Teachers

Up to $17,500 in loan forgiveness is available to borrowers who meet the general requirements described above and whose teaching service is as a full-time teacher of mathematics or science in a secondary school; or as a special education teacher.

DL Program Loan Forgiveness for Public Service Employees

Loan forgiveness for public service employees is available to borrowers of DL program loans who are employed full-time in certain public service jobs for 10 years during the repayment of their loans.[74] To qualify for loan forgiveness, borrowers must make 120 monthly payments on or after October 2, 2007, according to the ICR plan, the IBR plan, or either of the standard, graduated, or extended repayment plans in amounts equal to or greater than the monthly amount due as calculated according to a standard 10-year repayment period, while concurrently being employed full-time in public service jobs. After having made 120 qualifying payments, a borrower's remaining loan balance will be forgiven. Loan forgiveness for public service employees is available to new and existing borrowers of DL program loans and is an entitlement to qualified borrowers.

For purposes of the program, a public service job is defined as a full-time job in emergency management, government (excluding service as a Member of Congress), military service, public safety, law enforcement, public health (including nurses, nurse practitioners, and health care practitioners), public education, social work in a public child or family service agency, public interest law services (including prosecution or public defense or legal advocacy in low-income communities at a nonprofit organization), early childhood education, public service for individuals with disabilities, public service for the elderly, public library sciences, school-based library sciences and other school-based services, or at an organization that is described in § 501(c)(3) of the IRC and exempt from taxation under § 501(a); or teaching as a full-time faculty member at a Tribal College or University as defined in § 316(b) of the HEA and other faculty teaching in high-needs areas, as determined by the Secretary.

Loan Forgiveness for Service in Areas of National Need

Under this program, borrowers of FFEL or DL program loans who are employed full-time in an occupation specified as an area of national need may qualify to have a portion of their outstanding loan balance forgiven by the Secretary. Up to $2,000 in FFEL or DL program student loan debt may be forgiven for each school, academic, or calendar year of full-time employment in an area of national need completed on or after August 14, 2008. A maximum of $10,000 may be forgiven for five years of service. Specified areas of national need are early childhood educators; nurses; foreign language specialists; librarians; certain highly qualified teachers; child welfare workers; speech-language pathologists and audiologists; school counselors; certain public sector

[74] Loan forgiveness for public service employees was enacted under the CCRAA and was amended under the HEOA. For additional information on the program see CRS Report RS22762, *Loan Forgiveness for Public Service Employees Under the William D. Ford Direct Loan Program*, by David P. Smole.

employees; nutrition professionals; medical specialists; mental health professionals; dentists; employees in science, technology, engineering, and mathematics (STEM) fields; physical therapists; superintendents, principals, and other (school) administrators; and occupational therapists. PLUS Loans obtained by parent borrowers on behalf of a dependent student and Consolidation Loans used to repay such loans are not eligible to be forgiven under the program. The program is authorized to be funded at such sums as may be necessary for FY2009-FY2014 and subject to the appropriation of funds will be available to borrowers on a first come, first served basis.[75]

Loan Repayment for Civil Legal Assistance Attorneys

Under this program, borrowers of federal student loans may qualify to have a portion of the outstanding balance of their loans repaid if they enter into agreements with the Secretary to serve as a full-time civil legal defense attorney for a period of not less than three years. In return for their service, the Secretary will assume the obligation to make payments of up to $6,000 per year, and up to $40,000 in the aggregate, on federal student loans made under FFEL, DL, and Perkins Loan programs. Loan repayment made available under the program may not be used to repay a PLUS Loan obtained by a parent borrower on behalf of a dependent student, nor the portion of a Consolidation Loan used to repay such a loan. The program is authorized to be funded at $10 million for FY2009; and such sums as may be necessary for FY2010-FY2014. Subject to the appropriation of funds, loan repayment will be available to borrowers on a first come, first served basis.[76]

[75] The Loan Forgiveness for Service in Areas of National need program was enacted under the HEOA. The program is established at § 428K of the HEA and replaces the Loan Forgiveness for Child Care Providers program, which has been repealed.

[76] The Loan Repayment for Civil Legal Assistance Attorneys program was enacted under the HEOA.

Appendix A. Glossary of Financial Terms

Amortization: To provide for the gradual reduction and ultimate elimination of a debt through periodic payments sufficient in size to cover interest due and reduce the amount of principal owed over a specified repayment period.

Bond Equivalent Rate: The interest rate on Treasury bills is commonly reported on a "bank discount basis," a measure that is calculated based upon the face value of a Treasury bill at maturity (as opposed to the purchase price). The bond equivalent rate is the interest payment determined as a percentage of purchase price.

Capitalizing Interest: To add accumulating interest to the loan principal thereby increasing the total amount of the loan on which interest is charged. Capitalization of accrued interest would typically occur at one or more intervals when a borrower is not required to make regular interest payments.

Interest: A charge for borrowed money, generally a percent of the amount borrowed.

Negative Amortization: When required payments on a loan are not sufficient in size to cover accrued interest and unpaid interest is added to loan principal—increasing the borrower's debt (a scenario that can occur under income-contingent repayment).

Principal: The amount of money borrowed.

91-day Treasury bill: A short term promissory note issued by the U.S. Treasury, secured by the full faith and credit of the United States. Treasury bills are issued by the federal government as a means of financing deficits and managing cash flows and are generally viewed as risk-free investments. A 91-day Treasury bill has a maturity of 13 weeks, and the rate for 91-day Treasury bills is determined when the Treasury auctions the 91-day Treasury bill, typically on the first business day of the week.

Variable Interest: Rate of interest on a loan that is tied to an index (such as the 91-day Treasury bill), and adjusted periodically in accordance with changes in the index.

Appendix B. Detailed Tables on Selected Characteristics of FFEL and DL Program Loans

Table B-1. Annual Loan Limits for Borrowers of Stafford Loans and PLUS Loans, by Dependency Status and Grade Level

Borrower Dependency Status And Grade Level	Subsidized Stafford Loans ($)	Total Subsidized & Unsubsidized Stafford Loans ($)	PLUS Loans ($)
Dependent Undergraduate			
Annual loan limits			
1st year	3,500	5,500	n.a.
2nd year	4,500	6,500	n.a.
3rd year and above	5,500	7,500	n.a.
Preparatory coursework for undergraduate degree or certificate program	2,625	2,625	n.a.
Preparatory coursework for graduate or professional program[a]	5,500	5,500	n.a.
Teacher certification[a]	5,500	5,500	n.a.
		Aggregate loan limits[cd]	
In general	23,000	31,000	n.a.
Independent Undergraduate[b]			
Annual loan limits			
1st year	3,500	9,500	n.a.
2nd year	4,500	10,500	n.a.
3rd year and above	5,500	12,500	n.a.
Preparatory coursework for undergraduate degree or certificate program	2,625	8,625	n.a.
Preparatory coursework for graduate or professional program[a]	5,500	12,500	n.a.
Teacher certification[a]	5,500	12,500	n.a.
Aggregate loan limits[cd]			
In general	23,000	57,500	n.a.
Graduate and Professional			
Annual loan limits			
In general	8,500	20,500	Up to COA-EFC[e]
Health professions programs[f]	8,500	40,500 to 47,167	Up to COA-EFA[e]
Health professions programs[g]	8,500	33,000 to 37,167	Up to COA-EFA[e]

Borrower Dependency Status And Grade Level	Subsidized Stafford Loans ($)	Total Subsidized & Unsubsidized Stafford Loans ($)	PLUS Loans ($)
			Aggregate loan limits[cd]
In general	65,500	138,500	Not limited[e]
Health professions programs	65,500	224,000	Not limited[e]
Parents of Dependent Undergraduate Students			
Annual loan limits			
All	n.a.	n.a.	Not limited[e]
Aggregate loan limits[cdh]			
In general	n.a.	n.a.	Not limted[e]

Sources: HEA, §§ 428 and 428H; 34 CFR 682.204; and Department of Education, Office of Postsecondary Education, Dear Colleague Letters GEN-05-09, GEN-08-04, and GEN-08-08.

Note: "n.a." means not applicable.

a. For individuals who have obtained a baccalaureate degree.

b. These loan limits also apply to dependent undergraduate students whose parents are unable to obtain PLUS Loans.

c. Accrued interest and other charges that have not been capitalized do not count toward aggregate loan limits.

d. Stafford Loans that have been included in Consolidation Loans are attributed to the aggregate limits for Subsidized Stafford Loans and Total Stafford Loans according to their proportionate amount of the Consolidation Loan.

e. There is no statutory borrowing limit for PLUS Loans; however, borrowers must be credit-worthy and all aid combined may not exceed COA.

f. Students enrolled in programs in the following disciplines are eligible to borrow an additional $20,000 more than regular students in Unsubsidized Stafford Loans for programs with nine-month academic years, and an additional $26,667 for programs with 12-month academic years: Doctor of Allopathic Medicine, Doctor of Osteopathic Medicine, Doctor of Dentistry, Doctor of Veterinary Medicine, Doctor of Optometry, Doctor of Podiatric Medicine; and effective May 1, 2005, Doctor of Naturopathic Medicine, and Doctor of Naturopathy. (Amounts are prorated for 10- and 11-month programs.)

g. Students enrolled in programs in the following disciplines are eligible to borrow an additional $12,500 more than regular students in Unsubsidized Stafford Loans for programs with nine-month academic years, and an additional $16,667 for programs with 12-month academic years: Doctor of Pharmacy, Graduate in Public Health, Doctor of Chiropractic, Doctoral Degree in Clinical Psychology, Masters or Doctoral Degree in Health Administration. (Amounts are prorated for 10- and 11-month programs.)

h. Aggregate loan limits for graduate and professional students include amounts borrowed for undergraduate loans.

Table B-2. History of Annual Loan Limits for Stafford Loans and PLUS Loans, by Borrower Type

Time Period	Undergraduate Students					Independent Graduate and Professional Students				Parents of Dependent Undergraduate Students
	Class Level	Dependent Undergraduate[a]	Independent Undergraduate[a]							
		Subsidized Stafford Loans[b]	Total Subsidized & Unsubsidized Stafford Loans[b]	Subsidized Stafford Loans[b]	Total Subsidized & Unsubsidized Stafford Loans[b]	Borrower Type	Subsidized Stafford Loans[b]	Total Subsidized & Unsubsidized Stafford Loans[b]	PLUS Loans	PLUS Loans
Nov. 8, 1965 to Feb. 28, 1973	In general	1,000	n.a.	1,000	n.a.	In general	1,500	n.a.	n.a.	n.a.
Mar. 1, 1973 to Sept. 30, 1976	In general	2,500	n.a.	2,500	n.a.	In general	2,500	n.a.	n.a.	n.a.
Oct. 1, 1976 to Sept. 30, 1980	In general	2,500	n.a.	2,500	n.a.	In general	5,000	n.a.	n.a.	n.a.
Oct. 1, 1980 to Sept. 30, 1981[c]	In general	2,500	n.a.	3,000	n.a.	In general	5,000	n.a.	n.a.	3,000
Oct. 1, 1981 to Dec. 31, 1986[c]	In general	2,500	n.a.	2,500	n.a.	In general	5,000	n.a.	n.a.	3,000

Time Period	Class Level	Undergraduate Students				Independent Graduate and Professional Students				Parents of Dependent Undergraduate Students
		Dependent Undergraduate[a]	Independent Undergraduate[a]							
		Subsidized Stafford Loans[b]	Total Subsidized & Unsubsidized Stafford Loans[b]	Subsidized Stafford Loans[b]	Total Subsidized & Unsubsidized Stafford Loans[b]	Borrower Type	Subsidized Stafford Loans[b]	Total Subsidized & Unsubsidized Stafford Loans[b]	PLUS Loans	PLUS Loans
Jan. 1, 1987 to June 30, 1993[d]	1st two yrs.	2,625	n.a.	2,625	n.a.	In general	7,500	n.a.	n.a.	4,000
	3rd yr. & up	4,000	n.a.	4,000	n.a.					
July 1, 1993 to Sept. 30, 1993[e]	1st yr.	2,625	2,625	2,625	2,625	In general	7,500	7,500	n.a.	Up to COA-EFA
	2nd yr.	3,500	3,500	3,500	3,500					
	3rd yr. & up	5,500	5,500	5,500	5,500					
Oct. 1, 1993 to June 30, 1994	1st yr.	2,625	2,625	2,625	2,625	In general	8,500	8,500	n.a.	Up to COA-EFA
	2nd yr.	3,500	3,500	3,500	3,500					
	3rd yr. & up	5,500	5,500	5,500	5,500					
July. 1, 1994 to June 30, 2007[f]	1st yr.	2,625	2,625	2,625	3,325	In general	8,500	18,500	n.a.	Up to COA-EFA
	2nd yr.	3,500	3,500	3,500	7,500					
	3rd yr. & up	5,500	5,500	5,500	10,500	Health professions[e]	8,500	38,500 to 45,167		
	Prep. u-grad.	2,625	2,625	2,625	6,625					
	Prep. grad.	5,500	5,500	5,500	10,500	Health professions[f]	8,500	31,000 to 35,167		
	Teacher cert.	5,500	5,500	5,500	10,500					
July 1, 2007 to June 30,	1st yr.	3,500	3,500	3,500	7,500	In general	8,500	18,500	Up to COA-EFA	Up to COA-EFA
	2nd yr.	4,500	4,500	4,500	8,500					
	3rd yr. & up	5,500	5,500	5,500	10,500	Health	8,500	38,500 to 45,167		

Time Period	Class Level	Undergraduate Students				Independent Graduate and Professional Students				Parents of Dependent Undergraduate Students
		Dependent Undergraduate[a]	Independent Undergraduate[a]							
		Subsidized Stafford Loans[b]	Total Subsidized & Unsubsidized Stafford Loans[b]	Subsidized Stafford Loans[b]	Total Subsidized & Unsubsidized Stafford Loans[b]	Borrower Type	Subsidized Stafford Loans[b]	Total Subsidized & Unsubsidized Stafford Loans[b]	PLUS Loans	PLUS Loans
2008[f]	Prep. u-grad.	2,625	2,625	2,625	6,625	professions[e]				
	Prep. grad.	5,500	5,500	5,500	10,500	Health professions[f]	8,500	31,000 to 35,167		
	Teacher cert.	5,500	5,500	5,500	10,500					
July 1, 2008 to present[f]	1[st] yr.	3,500	5,500	3,500	9,500	In general	8,500	20,500	Up to COA-EFA	Up to COA-EFA
	2[nd] yr.	4,500	6,500	4,500	10,500					
	3[rd] yr. & up	5,500	7,500	5,500	12,500	Health professions[e]	8,500	40,500 to 47,167		
	Prep. u-grad.	2,625	2,625	2,625	8,625					
	Prep. grad.	5,500	5,500	5,500	12,500	Health professions[f]	8,500	33,000 to 37,167		
	Teacher cert.	5,500	5,500	5,500	12,500					

Source: HEA, §§ 428, 428A, 428B, and 428H; P.L. 89-329; P.L. 90-575; P.L. 92-318; P.L. 92-391; P.L. 94-482; P.L. 95-566; P.L. 96-374; P.L. 97-35; P.L. 99-498; P.L. 100-297; P.L. 102-325; P.L. 102-325; P.L. 103-66; P.L. 105-244; P.L. 109-171; P.L. 110-227; Department of Education, Office of Postsecondary Education, Dear Colleague Letters GEN-96-14; GEN-97-14, GEN-05-09, and GEN-08-08; 45 C.F.R. § 177.14(a)(3) (1967 edition).

Note: "n.a." means not applicable.

a. Undergraduate students first became categorized as either dependent or independent students effective Oct. 1, 1980.

b. Subsidized Stafford Loans were referred to as Guaranteed Student Loans until July 1, 1988. Prior to Nov. 1, 1978, interest subsidies on Guaranteed Student Loans were available only borrowers whose family income was below specified income ceilings. Effective Nov. 1, 1978, income ceilings on Guaranteed Student Loans were removed. In addition, since the enactment of the HEA in 1965, federal student loans have been authorized under a parallel loan program, the Federally Insured Student Loan (FISL) program. FISL program loans are not currently being made; however, during many periods throughout the history of the program, FISL loan limits paralleled those for GSLs and Stafford Loans.

c. For the period from Jan. 1, 1981 to Dec. 31, 1986, federal student loans were also available to independent undergraduate and graduate and professional students under a separate loan program called the Auxiliary Loans to Assist Students (ALAS) program. The annual loan limit for ALAS program loans was $2,500. This loan limit was separate from the limit on Guaranteed Student Loans.

d. For the period from Jan. 1, 1987 to June 30, 1994, federal student loans were also available under a separate loan program called the Supplemental Loans for Students (SLS) program. During the period from Jan. 1, 1987 to June 30, 1993, the annual loan limit for SLS program loans was $4,000.

e. For SLS program loans, during the period from July 1, 1993 until June 30, 1994, annual loan limits were $4,000 for undergraduate students in their first or second year of studies, $5,000 for undergraduate students in their third or higher year of studies, and $10,000 for graduate and professional students. The SLS program was repealed effective June 30, 1994.

f. In accordance with authority provided the Secretary under P.L. 104-134, effective July 1, 1996, increased Unsubsidized Stafford Loan borrowing limits were extended to students who became unable to borrow under the Health Education Assistance Loan (HEAL) program.

g. Students enrolled in programs in the following disciplines are eligible to borrow an additional $20,000 more than regular students in Unsubsidized Stafford Loans for programs with nine-month academic years, and an additional $26,667 for programs with 12-month academic years: Doctor of Allopathic Medicine, Doctor of Osteopathic Medicine, Doctor of Dentistry, Doctor of Veterinary Medicine, Doctor of Optometry, Doctor of Podiatric Medicine; and effective May 1, 2005, Doctor of Naturopathic Medicine, and Doctor of Naturopathy. (Amounts are prorated for 10- and 11-month programs.).

h. Students enrolled in programs in the following disciplines are eligible to borrow an additional $12,500 more than regular students in Unsubsidized Stafford Loans for programs with nine-month academic years, and an additional $16,667 for programs with 12-month academic years: Doctor of Pharmacy, Graduate in Public Health, Doctor of Chiropractic, Doctoral Degree in Clinical Psychology, Masters or Doctoral Degree in Health Administration. (Amounts are prorated for 10- and 11-month programs.).

Table B-3. History of Aggregate Loan Limits for Stafford Loans and PLUS Loans, by Borrower Type

Time Period	Undergraduate Students				Independent Graduate and Professional				Parents of Dependent Undergraduate Students
	Dependent Undergraduate[a]		Independent Undergraduate[a]						
	Subsidized Stafford Loans[b]	Total Subsidized & Unsubsidized Stafford Loans[b]	Subsidized Stafford Loans[b]	Total Subsidized & Unsubsidized Stafford Loans[b]	Borrower Type	Subsidized Stafford Loans[b]	Total Subsidized & Unsubsidized Stafford Loans[b]	PLUS Loans	PLUS Loans
Nov. 8, 1965 to Feb. 28, 1973	7,500	n.a.	7,500	n.a.	In general	7,500	n.a.	n.a.	n.a.
Mar. 1, 1973 to Sept. 30, 1976	7,500	n.a.	7,500	n.a.	In general	10,000	n.a.	n.a.	n.a.

Time Period	Undergraduate Students				Independent Graduate and Professional				Parents of Dependent Undergraduate Students
	Dependent Undergraduate[a]		Independent Undergraduate[a]						
	Subsidized Stafford Loans[b]	Total Subsidized & Unsubsidized Stafford Loans[b]	Subsidized Stafford Loans[b]	Total Subsidized & Unsubsidized Stafford Loans[b]	Borrower Type	Subsidized Stafford Loans[b]	Total Subsidized & Unsubsidized Stafford Loans[b]	PLUS Loans	PLUS Loans
Oct. 1, 1976 to Sept. 30, 1980	7,500	n.a.	7,500	n.a.	In general	15,000	n.a.	n.a.	n.a.
Oct. 1, 1980 to Sept. 30, 1981[c]	12,500	n.a.	15,000	n.a.	In general	25,000	n.a.	n.a.	15,000
Oct. 1, 1981 to Dec. 31, 1986[c]	12,500	n.a.	12,500	n.a.	In general	25,000	n.a.	n.a.	15,000
Jan. 1, 1987 to Sept. 30, 1992[d]	17,250	n.a.	17,250	n.a.	In general	54,750	n.a.	n.a.	20,000
Oct. 1, 1992 to June 30, 1993[d]	23,000	23,000	23,000	23,000	In general	65,500	65,500	n.a.	20,000
July 1, 1993 to June 30, 1994[d]	23,000	23,000	23,000	23,000	In general	65,500	65,500	n.a.	Not limited
July 1, 1994 to June 30, 2007[e]	23,000	23,000	23,000	46,000	In general	65,500	138,500	n.a.	Not limited
					Health professions	65,500	189,125	n.a.	
July 1, 2007 to	23,000	23,000	23,000	46,000	In general	65,000	138,500	Not limited	Not limited

Time Period	Undergraduate Students				Independent Graduate and Professional				Parents of Dependent Undergraduate Students
	Dependent Undergraduate[a]		Independent Undergraduate[a]						
	Subsidized Stafford Loans[b]	Total Subsidized & Unsubsidized Stafford Loans[b]	Subsidized Stafford Loans[b]	Total Subsidized & Unsubsidized Stafford Loans[b]	Borrower Type	Subsidized Stafford Loans[b]	Total Subsidized & Unsubsidized Stafford Loans[b]	PLUS Loans	PLUS Loans
June 30, 2008[f]					Health professions	65,000	189,125	Not limited	
July 1, 2008 to present	23,000	31,000	23,000	57,500	In general	65,500	138,500	Not limited	Not limited
					Health professions	65,500	224,000	Not limited	

Source: HEA, §§ 428, 428A, 428B, and 428H; P.L. 89-329; P.L. 90-575; P.L. 92-318; P.L. 92-391; P.L. 94-482; P.L. 95-566; P.L. 96-374; P.L. 97-35; P.L. 99-498; P.L. 100-297; P.L. 102-325; P.L. 102-325; P.L. 103-66; P.L. 105-244; P.L. 109-171; P.L. 110-227; Department of Education, Office of Postsecondary Education, Dear Colleague Letters GEN-96-14; GEN-97-14, GEN-05-09, and GEN-08-04; 45 C.F.R. § 177.14(a)(3) (1967 edition).

Note:"n.a." means not applicable.

a. Undergraduate students first became categorized as either dependent or independent students effective Oct. 1, 1980.

b. Subsidized Stafford Loans were referred to as Guaranteed Student Loans until July 1, 1988. Prior to Nov. 1, 1978, interest subsidies on Guaranteed Student Loans were available only borrowers whose family income was below specified income ceilings. Effective Nov. 1, 1978, income ceilings on Guaranteed Student Loans were removed. In addition, since the enactment of the HEA in 1965, federal student loans have been authorized under a parallel loan program, the Federally Insured Student Loan (FISL) program. FISL program loans are not currently being made; however, during many periods throughout the history of the program, FISL loan limits paralleled those for GSLs and Stafford Loans.

c. For the period from Jan. 1, 1981 to Dec. 31, 1986, federal student loans were also available to independent undergraduate and graduate and professional students under a separate loan program called the Auxiliary Loans to Assist Students (ALAS) program. ALAS program loans had a career loan limit of $12,500. This loan limit was separate from the limit on Guaranteed Student Loans.

d. For the period from Jan. 1, 1987 to June 30, 1994, federal student loans were also available under a separate loan program called the Supplemental Loans for Students (SLS) program. The aggregate loan limit for SLS program loans was $20,000.

e. In accordance with authority provided the Secretary under P.L. 104-134, effective July 1, 1996, increased Unsubsidized Stafford Loan borrowing limits were extended to students who became unable to borrow under the Health Education Assistance Loan (HEAL) program. On Dec. 1, 1997, aggregate loan limits of $189,500 were established for borrowers enrolled in certain health professions programs.

f. In accordance with authority provided the Secretary under P.L. 104-134, effective July 1, 1996, increased Unsubsidized Stafford Loan borrowing limits were extended to students who became unable to borrow under the Health Education Assistance Loan (HEAL) program. Effective Apr. 14, 2008, aggregate loan limits of $224,000 were established for borrowers enrolled in certain health professions programs.

Table B-4. History of Stafford Loan Fixed Interest Rates and Variable Interest Rate Formulas

Disbursement Period	Fixed Interest Rate or Variable Interest Rate Formula in Effect[a]	
	Subsidized Stafford Loans	Unsubsidized Stafford Loans[b]
November 8, 1965-August 2, 1968	6% fixed rate[c]	n.a.
August 3, 1968-December 31, 1980	7% fixed rate[c]	n.a.
January 1, 1981-June 30, 1988	9% or 8% fixed rate[d]	n.a.
July 1, 1988-September 30, 1992	8% fixed rate for first 48 months; 10% fixed rate for remaining repayment period	8% fixed rate for first 48 months; 10% fixed rate for remaining repayment period[e]
October 1, 1992-June 30, 1994	91-day T-bill + 3.1% (capped at 9%)	91-day T-bill + 3.1% (capped at 9%)
July 1, 1994-June 30, 1995	91-day T-bill + 3.1% (capped at 8.25%)	91-day T-bill + 3.1% (capped at 8.25%)
July 1, 1995-June 30, 1998	91-day T-bill + 2.5% (capped at 8.25%) for in-school, grace, and deferment periods; and 91-day T-bill + 3.1% (capped at 8.25%) for repayment periods	91-day T-bill + 2.5% (capped at 8.25%) for in-school, grace, and deferment periods; and 91-day T-bill + 3.1% (capped at 8.25%) for repayment periods
July 1, 1998-June 30, 2006	91-day T-bill + 1.7% (capped at 8.25%) for in-school, grace, and deferment periods; and 91-day T-bill + 2.3% (capped at 8.25%) for repayment periods	91-day T-bill + 1.7% (capped at 8.25%) for in-school, grace, and deferment periods; and 91-day T-bill + 2.3% (capped at 8.25%) for repayment periods
July 1, 2006-June 30, 2008	6.8% fixed rate	6.8% fixed rate
July 1, 2008-June 30, 2009	6.0% fixed rate for undergraduate students; and 6.8% fixed rate for graduate and professional students	6.8% fixed rate
July 1, 2009-June 30, 2010	5.6% fixed rate for undergraduate students; and 6.8% fixed rate for graduate and professional students	6.8% fixed rate
July 1, 2010-June 30, 2011	4.5% fixed rate for undergraduate students; and 6.8% fixed rate for graduate and professional students	6.8% fixed rate
July 1, 2011-June 30, 2012	3.4% fixed rate for undergraduate students; and 6.8% fixed rate for graduate and professional students	6.8% fixed rate

Disbursement Period	**Fixed Interest Rate or Variable Interest Rate Formula in Effect**[a]	
	Subsidized Stafford Loans	**Unsubsidized Stafford Loans**[b]
On or after July 1, 2012	6.8% fixed rate	6.8% fixed rate

Source: HEA §§ 427A, 428, and 455(b); (20 U.S.C. §§ 1077a, 1078 and 1087e(b)).

Note: "n.a." means not applicable.

a. Interest rates shown are rates for new borrowers with no outstanding loan balance at the time of disbursement. Prior to July 1, 1994, different procedures for determining interest rates applied to new borrowers and existing borrowers.

b. Unsubsidized Stafford Loans first became available Oct. 1, 1992.

c. For loans made prior to Dec. 15, 1968, borrowers whose adjusted family income was less than $15,000 at the time of disbursement were eligible to have 3 percentage points of their interest paid on their behalf by the federal government.

d. During this period, loans to new borrowers were made at a 9% interest rate, unless for any 12-month period beginning on or after Jan. 1, 1981, the average bond equivalent rate of 91-day Treasury bills auctioned during that 12-month period is less than 9%, in which case loans were made at an 8% interest rate. (Also during this period, loans to existing borrowers of loans with interest rates that did not exceed 7% were made at a 7% interest rate.)

Table B-5. Stafford Loan Interest Rates in Effect, by Borrower Cohort: 1992-1993 to 2012-2013

Borrower Cohort	Loan Description		Interest Rate Period (July 1 to June 30)																				
			1992-1993	1993-1994	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Nov. 8, 1965-Aug. 2, 1968	6% loans		6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Aug. 3, 1968-Dec. 31, 1981	7% loans		7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
	Converted 7% loans[a]		—	6.22	7.00	7.00	7.00	7.00	7.00	7.00	7.00	6.79	4.86	4.22	4.17	6.10	7.00	7.00	5.01	TBD	TBD	TBD	TBD
Jan. 1, 1981-June 30, 1998	9% loans		9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
	Converted 9% loans[a]		—	6.22	7.43	8.92	8.26	8.26	8.26	7.72	8.99	6.79	4.86	4.22	4.17	6.10	7.94	8.02	5.01	TBD	TBD	TBD	TBD
	8% loans		8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
	Converted 8% loans[a]		—	6.22	7.43	8.00	8.00	8.00	8.00	7.72	8.00	6.79	4.86	4.22	4.17	6.10	7.94	8.00	5.01	TBD	TBD	TBD	TBD
July 1, 1988-Sept. 30, 1992	Converted 8/10% loans[b]	1st 48 months	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
		49th month & after	10.00	6.37	7.58	9.07	8.41	8.41	8.41	7.87	9.14	6.94	5.01	4.37	4.32	6.25	8.09	8.17	5.16	TBD	TBD	TBD	TBD
	Converted 8/10% loans[a]	1st 48 months	—	6.22	7.43	8.00	8.00	8.00	8.00	7.72	8.00	6.79	4.86	4.22	4.17	6.10	7.94	8.00	5.01	TBD	TBD	TBD	TBD
		49th month & after	—	—	—	—	—	8.26	8.26	7.72	8.99	6.79	4.86	4.22	4.17	6.10	7.94	8.02	5.01	TBD	TBD	TBD	TBD
Oct. 1, 1992-June 30, 1994	91-day T-bill + 3.1% (capped at 9%)		6.94	6.22	7.43	8.92	8.26	8.26	8.26	7.72	8.99	6.79	4.86	4.22	4.17	6.10	7.94	8.02	5.01	TBD	TBD	TBD	TBD
July 1, 1994-June 30, 1995	91-day T-bill + 3.1% (capped at 8.25%)		—	—	7.43	8.25	8.25	8.25	8.25	7.72	8.25	6.79	4.86	4.22	4.17	6.10	7.94	8.02	5.01	TBD	TBD	TBD	TBD
July 1, 1995-June 30, 1998	91-day T-bill + 2.5% (capped at 8.25%)	In-school, grace, and deferment periods	—	—	—	8.25	7.66	7.66	7.66	7.12	8.25	6.19	4.26	3.62	3.57	5.50	7.34	7.42	4.41	TBD	TBD	TBD	TBD

Borrower Cohort	Loan Description		Interest Rate Period (July 1 to June 30)																				
			1992-1993	**1993-1994**	**1994-1995**	**1995-1996**	**1996-1997**	**1997-1998**	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**	**2002-2003**	**2003-2004**	**2004-2005**	**2005-2006**	**2006-2007**	**2007-2008**	**2008-2009**	**2009-2010**	**2010-2011**	**2011-2012**	**2012-2013**
	91-day T-bill + 3.1% (capped at 8.25%)	Repayment	—	—	—	8.25	8.25	8.25	8.25	7.72	8.25	6.79	4.86	4.22	4.17	6.10	7.94	8.02	5.01	TBD	TBD	TBD	TBD
July 1, 1998-June 30, 2006	91-day T-bill + 1.7% (capped at 8.25%)	In-school, grace, and deferment	—	—	—	—	—	—	6.86	6.32	7.59	5.39	3.46	2.82	2.77	4.70	6.54	6.62	3.61	TBD	TBD	TBD	TBD
	91-day T-bill + 2.3% (capped at 8.25%)	Repayment	—	—	—	—	—	—	7.46	6.92	8.19	5.99	4.06	3.42	3.37	5.30	7.14	7.22	4.21	TBD	TBD	TBD	TBD
July 1, 2006-June 30, 2008	6.8% loans	All Stafford Loans	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.80	6.80	6.80	6.80	6.80	6.80	6.80
July 1, 2008-June 30, 2009	6.0% loans	Undergrad. Sub.Staff	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.00	6.00	6.00	6.00	6.00
	6.8% loans	All other Stafford	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.80	6.80	6.80	6.80	6.80
July 1, 2009-June 30, 2010	5.6% loans	Undergrad. Sub.Staff	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5.60	5.60	5.60	5.60
	6.8% loans	All other Stafford	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.80	6.80	6.80	6.80
July 1, 2010-June 30, 2011	4.5% loans	Undergrad. Sub.Staff	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	4.50	4.50	4.50
	6.8% loans	All other Stafford	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.80	6.80	6.80
July 1, 2011-June 30, 2012	3.4% loans	Undergrad. Sub.Staff	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	3.40	3.40
	6.8% loans	All other Stafford	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.80	6.80
On or	6.8% loans	All Stafford	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.80

Borrower Cohort	Loan Description	Interest Rate Period (July 1 to June 30)																				
		1992-1993	1993-1994	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
after July 1, 2012	Loans																					

Sources: U.S. Department of Education, Office of Federal Student Aid, FFEL historical Variable Interest rate Publications and historical Direct Loan Bulletins; and National Council of Higher Education Loan Programs, "History of Variable Interest Rates-Non-Converted Stafford Loans," and "History of Converted Stafford Loans Interest Rates."

a. Subsequent Stafford Loans disbursed on or after July 23, 1992.

b. "TBD" means to be determined at a future date.

c. These variable rates apply beginning with the 49th month of repayment.

Table B-6. History of PLUS Loan Fixed Interest Rates and Variable Interest Rate Formulas

Disbursement Period	Fixed Interest Rate or Variable Interest Rate Formula in Effect
January 1, 1981-September 30, 1981	9% fixed rate
October 1, 1981-October 31, 1982	14% fixed rate
November 1, 1982-June 30, 1987	12% fixed rate
July 1, 1987-September 30, 1992	52-week T-bill + 3.25% (capped at 12%)[a]
October 1, 1992-June 30, 1994	52-week T-bill + 3.1% (capped at 10%)[a]
July 1, 1994-June 30, 1998	52-week T-bill + 3.1% (capped at 9%)[a]
July 1, 1998-June 30, 2006	91-day T-bill + 3.1% (capped at 9%)
On or after July 1, 2006	8.5% fixed rate for FFEL program loans; 7.9% fixed rate for DL program loans

Source: HEA §§ 427A, and 455(b); (20 U.S.C. §§ 1077a, and 1087e(b)).

a. The Consolidated Appropriations Act for FY2001 (P.L. 106-554) includes an amendment to the HEA that changed the index used in the formulas that determine interest rates for PLUS Loans disbursed between July 1, 1987 and June 30, 1998. The amendment substituted the one-year constant maturity Treasury yield for the 52-week Treasury bill. This change, which affects interest rate adjustments made for any 12-month period beginning on or after July 1 of 2001, became necessary because the Department of Treasury stopped issuing 52-week Treasury bills.

Table B-7. PLUS Loan Interest Rates in Effect, by Borrower Cohort: 1992-1993 to 2012-2013

Borrower Cohort	Loan Description	Interest Rate Period (July 1 to June 30)																				
		1992-1993	1993-1994	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Jan. 1, 1981-Sept. 30, 1981	9% loans	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Oct. 1, 1981-Oct. 31, 1982	14% loans	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Nov. 1, 1982-June 30, 1987	12% loans	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
July 1, 1987-Sept. 30, 1992	52-wk. T-bill + 3.25% (capped at 12%)	7.51	6.79	8.53	9.13	8.87	9.13	8.68	8.13	9.63	6.71	5.38	4.20	5.41	6.65	8.49	8.20	5.82	TBD	TBD	TBD	TBD
Oct. 1, 1992-June 30, 1994	52-wk. T-bill + 3.1% (capped at 10%)	7.36	6.64	8.38	8.98	8.72	8.98	8.53	7.98	9.48	6.56	5.23	4.05	5.26	6.50	8.34	8.05	5.67	TBD	TBD	TBD	TBD
July 1, 1994-June 30, 1998	52-wk. T-bill + 3.1% (capped at 9%)	—	—	8.38	8.98	8.72	8.98	8.53	7.98	9.00	6.56	5.23	4.05	5.26	6.50	8.34	8.05	5.67	TBD	TBD	TBD	TBD
July 1, 1998-June 30, 2006	91-day T-bill + 3.1% (capped at 9%)	—	—	—	—	—	—	8.26	7.72	8.99	6.79	4.86	4.22	4.17	6.10	7.94	8.02	5.01	TBD	TBD	TBD	TBD
On or after July 1, 2006	8.5% FFEL loans	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8.50	8.50	8.50	8.50	8.50	8.50	8.50
	7.9% DL loans	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7.90	7.90	7.90	7.90	7.90	7.90	7.90

Sources: U.S. Department of Education, Office of Federal Student Aid, FFEL historical Variable Interest rate Publications and historical Direct Loan Bulletins; and National Council of Higher Education Loan Programs, "History of Variable Interest Rates-PLUS Loans."

a. "TBD" means to be determined at a future date.

Table B-8. History of Borrower Fees on Stafford Loans and PLUS Loans

Disbursement Period	FFEL Program Loans				DL Program Loans	
	Stafford Loans		PLUS Loans		Stafford Loans	PLUS Loans
	Origination Fee (%)	Default Fee (%)[a]	Origination Fee (%)	Default Fee (%)[a]	Origination Fee (%)	Origination Fee (%)
Nov. 8, 1965 to Aug. 13, 1975	0.0	Up to 0.5% per year of unpaid principal balance	n.a.	n.a.	n.a.	n.a.
Aug. 14, 1975 to Aug. 23, 1981	0.0	Up to 1% per year until loan enters repayment	n.a.	n.a.		
Aug. 23, 1981 to June 30, 1987	5.0[b]	Up to 1% per year until loan enters repayment	n.a.		n.a.	n.a.
July 1, 1987 to Sept. 30, 1992	5.0[b]	3.0	5.0	3.0		
Oct. 1, 1992 to June 30, 1994	Sub. Stafford 5.0	3.0	5.0	3.0	n.a.	n.a.
	Unsub. Stafford 6.5[c]	0.0[b]				
July 1, 1994 to June 30, 2006	3.0	1.0	3.0	1.0	4.0	4.0
July 1, 2006-June 30, 2007	2.0	1.0	3.0	1.0	3.0	4.0
July 1, 2007-June 30, 2008	1.5	1.0	3.0	1.0	2.5	4.0
July 1, 2008-June 30, 2009	1.0	1.0	3.0	1.0	2.0	4.0
July 1, 2009-June 30, 2010	0.5	1.0	3.0	1.0	1.5	4.0
On or after July 1, 2010	0.0	1.0	3.0	1.0	1.0	4.0

Source: HEA, §§ 428(b), 438(c), and 455(c); P.L. 89-329; P.L. 97-35; P.L. 99-498; P.L. 102-325; P.L. 103-66; P.L. 109-171; P.L. 110-227; 45 C.F.R. § 177.12 (1967 through 1975 editions).

a. Prior to July 1, 2006, the default fee was referred to as an insurance premium.

b. Pursuant to P.L. 99-177, the Balanced Budget and Emergency Deficit Control Act of 1985, origination fees were increased by 0.5% to 5.5% for loans disbursed between Mar. 1, 1986 and Sept. 30, 1986, and again between Oct. 1, 1989 and Dec. 31, 1989.

c. During the period from Oct. 1, 1992 through June 30, 1994, the combined origination fee and insurance premium (default fee) on Unsubsidized Stafford Loans was 6.5%.

Table B-9. History of Consolidation Loan Interest Rate Formulas

Disbursement Period	FFEL Consolidation Loan Interest Rate Formula in Effect	DL Consolidation Loan Interest Rate Formula in Effect
October 17, 1986-June 30, 1994	Fixed rate: the greater of the weighted average of interest rates on the loans consolidated, rounded to the nearest whole percent, or 9%	n.a.
July 1, 1994-June 30, 1995	Fixed rate: the weighted average of the interest rates on the loans consolidated, rounded upward to the nearest whole percent	Direct Stafford Consolidations: Variable rate: 91-day T-bill + 3.1%, capped at 8.25% Direct PLUS Consolidations: Variable rate: 52-week T-bill + 3.1%, capped at 9%[a]
July 1, 1995-November 12, 1997	Fixed rate: the weighted average of the interest rates on the loans consolidated, rounded upward to the nearest whole percent	Stafford Consolidation Loans: Variable rate: -in school, grace, or deferment: 91-day T-bill + 2.5%, capped at 8.25% -in repayment or forbearance: 91-day T-bill + 3.1%, capped at 8.25% PLUS Consolidation Loans: Variable rate: 52-week T-bill + 3.1%, capped at 9%[a]
November 13, 1997-June 30, 1998	Variable Rate: 91-day T-bill + 3.1% (capped at 8.25%)[b]	Stafford Consolidation Loans: Variable rate: -in school, grace, or deferment: 91-day T-bill + 2.5%, capped at 8.25% -in repayment or forbearance: 91-day T-bill + 3.1%, capped at 8.25% PLUS Consolidation Loans: Variable rate: 52-week T-bill + 3.1%, capped at 9%[a]
July 1, 1998-September 30, 1998	Variable Rate: 91-day T-bill + 3.1% (capped at 8.25%)[b]	Stafford Consolidation Loans: Variable rate: -in school, grace, or deferment: 91-day T-bill + 1.7%, capped at 8.25% -in repayment or forbearance: 91-day T-bill + 2.3%, capped at 8.25% PLUS Consolidation Loans: Variable rate: 52-week T-bill + 3.1%, capped at 9%[a]

Disbursement Period	FFEL Consolidation Loan Interest Rate Formula in Effect	DL Consolidation Loan Interest Rate Formula in Effect
October 1, 1998-present	Fixed rate: the weighted average of interest rates on the loans consolidated, rounded to the nearest higher one-eighth of 1%, capped at 8.25%[b]	Applications received 10/1/98 to 1/31/99: Variable Rate: 91-day T-bill + 2.3%, capped at 8.25%. Applications received on or after 2/1/1999: Fixed rate: the weighted average of the interest rates on the loans consolidated, rounded to the nearest higher one-eighth of 1%, capped at 8.25%.

Source: HEA §§ 427A (20 U.S.C. § 1077a), 428C (20 U.S.C. § 1078-3), 455(b) (20 U.S.C. § 1087e(b)); and 34 C.F.R. § 685.202(a)(3).

Note: “n.a.” means not applicable.

a. For outstanding Federal Direct PLUS Consolidation Loans with rate setting formulas tied to the 52-week Treasury bill, for periods beginning July 1, 2001, the average weekly one-year constant maturity Treasury yield was substituted for the bond equivalent rate of 52-week Treasury bills. This change became necessary because the Department of Treasury decided to stop issuing 52-week Treasury bills.

b. The interest rate applicable to the portion of an FFEL program Consolidation Loan represented by a HEAL loan(s) is the average of the bond equivalent rates of the 91-day Treasury bills auctioned for the quarter prior to July 1, plus 3 percentage points, with no cap.

Author Contact Information

David P. Smole
Specialist in Education Policy
dsmole@crs.loc.gov, 7-0624