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

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Summary

The William D. Ford Federal Direct Loan (DL) program, authorized under Title IV, Part D of the Higher Education Act of 1965 (HEA), as amended, is the primary federal student loan program administered by the U.S. Department of Education (ED). The program makes available loans to undergraduate and graduate students and the parents of dependent undergraduate students to help them finance their postsecondary education expenses. Four types of loans are offered: Subsidized Stafford Loans for undergraduate students; 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 multiple loans into a single loan. For FY2015, ED estimates that 19.1 million loans (not including Consolidation Loans) totaling $101.6 billion will be made to students and their parents through the DL program. Federal Family Education Loan (FFEL) program loans are no longer being made; however, approximately $304 billion in outstanding FFEL program loans are due to be repaid over the coming years.

FFEL and DL program loans 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 undergraduate students demonstrating financial need. With certain exceptions, the federal government pays the interest that accrues on Subsidized Stafford Loans while the borrower is enrolled in school on at least a half-time basis, during a six-month grace period thereafter, and during periods of authorized 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 nonfederal 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.

This report discusses major provisions of federal student loans made available through the DL program and previously made through the FFEL program. It focuses on 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 through the DL program, or made in the recent past through either program. The report also provides detailed historical information on annual and aggregate borrowing limits, loan fees, and student loan interest rates.

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Introduction

The William D. Ford Federal Direct Loan (DL) program—authorized under Title IV, Part D of the Higher Education Act of 1965 (HEA), as amended, and administered by the U.S. Department of Education (ED)—is the primary source of federal student loans.[1] Several types of loans are offered through the DL program: Subsidized Stafford Loans for undergraduate students; Unsubsidized Stafford Loans for undergraduate and graduate students; PLUS Loans for graduate students and 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. For many years, essentially the same set of loans was also available through the Federal Family Education Loan (FFEL) program, authorized under Title IV, Part B of the HEA; and the majority of loans made were FFEL program loans. The SAFRA Act terminated the authority to make new FFEL program loans, effective July 1, 2010.[2]

Both the FFEL and DL programs are descendants of the Guaranteed Student Loan (GSL) program, which was originally enacted under Title IV of the HEA to enhance access to postsecondary education for students from low- and middle-income families by providing them access to low-interest student loans. Under the FFEL program, loans were originated by private sector and state-based lenders and were funded with nonfederal capital. The federal government guaranteed lenders against loss through borrower default, death, permanent disability, or, in limited instances, bankruptcy. The federal government also entered into agreements to provide participating lenders a variety of incentives designed to ensure that nonfederal capital would consistently be available to support FFEL program student loans.[3] FFEL program loans are serviced by private sector and state-based lenders; and state and nonprofit guaranty agencies receive federal funds to play the lead role in administering the federal loan guarantee. While no new loans are being made through the FFEL program, outstanding FFEL program loans are due to be repaid over the coming years.

Authorization for the DL program was enacted under the Student Loan Reform Act of 1993, part of the Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66).[4] The program was established with the goals of streamlining the student loan delivery system and achieving cost savings. When enacted, the program was originally intended to gradually expand and replace the FFEL program; however, provisions calling for a "phase-in" of the DL program were repealed under the Higher Education Amendments of 1998 (P.L. 105-244). For the nearly two decades that both the FFEL and DL programs were in operation, IHEs were able to participate in the program of their choice.

[1] There is a smaller, separate federal student loan program—the Federal Perkins Loan program—that is also authorized by the Higher Education Act, but it 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 Alexandra Hegji and David P. Smole.

[2] For additional information on changes made to the FFEL and DL programs by the SAFRA Act, see CRS Report R41127, *The SAFRA Act: Education Programs in the FY2010 Budget Reconciliation*, coordinated by Cassandria Dortch.

[3] One such incentive is the "special allowance payment," a market-indexed loan subsidy payment that is made by the government and 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.

[4] A Federal Direct Loan Demonstration Program was enacted under the Education Amendments of 1992 (P.L. 102-325); however, prior to being fully implemented, the demonstration program was succeeded by the Federal Direct Student Loan program that was enacted under P.L. 103-66.

The DL program uses a different administrative structure and draws on a different source of capital than was used in the FFEL program. Under the DL program, the federal government essentially serves as the banker—it provides the loans to students and their families using federal capital (i.e., funds from the U.S. Treasury), and it owns the loans. Schools that participate in the DL program may serve as direct loan originators or the loans may be originated by a contractor working for ED. Federal contractors hired by ED service DL program loans.

The DL program is the largest federal program that provides direct aid to support students' postsecondary educational pursuits. In FY2015, ED estimates that 19.1 million new DL program Stafford Loans and PLUS Loans, averaging $5,321 each and totaling $101.5 billion, will be made to undergraduate and graduate students, and the parents of undergraduate dependent students; and it estimates that 523,000 Consolidation loans, averaging $51,554 and totaling $27.0 billion, will also be made.[5]

In the recent years, numerous changes have been made to the terms and conditions of DL program loans. The College Cost Reduction and Access Act of 2007 (CCRAA; P.L. 110-84)[6] incrementally lowered, from 6.8% to 3.4%, the fixed interest rates charged to undergraduate borrowers of Subsidized Stafford Loans made during the four award years spanning July 1, 2008, to June 30, 2012, and established the income-based repayment (IBR) plan. The Ensuring Continued Access to Student Loans Act of 2008 (ECASLA; P.L. 110-227)[7] increased the amounts students may borrow in Unsubsidized Stafford Loans. The Higher Education Opportunity Act (HEOA; P.L. 110-315)[8] reauthorized the HEA and made a variety of changes to loan terms and conditions. The SAFRA Act, part of the Health Care and Education Reconciliation Act of 2010 (HCERA; P.L. 111-152),[9] terminated the authority to make new loans under the FFEL program after June 30, 2010. The Budget Control Act of 2011 (BCA; P.L. 112-25) eliminated the availability of Subsidized Stafford Loans to graduate and professional students for periods of instruction beginning on or after July 1, 2012; and terminated the availability of certain repayment incentives for loans made on or after July 1, 2012. The Moving Ahead for Progress in the 21st Century Act (MAP-21; P.L. 112-141) extended the 3.4% interest rate to apply to Subsidized Stafford Loans made from July 1, 2012, to June 30, 2013. Most recently, the Bipartisan Student Loan Certainty Act of 2013 (P.L. 113-28) established a new market-indexed, fixed interest rate structure for DL program loans made on or after July 1, 2013.[10]

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[5] Department of Education, FY2015 Justification of Appropriation Estimates to the Congress, Volume II, "Student Loans Overview," March 2014, http://www2.ed.gov/about/overview/budget/budget15/justifications/s-loansoverview.pdf. (Hereinafter cited as ED, FY2015 Justification of Appropriation Estimates to the Congress, "Student Loans Overview.")

[6] 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.

[7] 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.

[8] 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.

[9] For additional information on changes made to the FFEL and DL programs under the SAFRA Act, see CRS Report R41127, *The SAFRA Act: Education Programs in the FY2010 Budget Reconciliation*, coordinated by Cassandria Dortch.

[10] For additional information on changes made to DL program loans under the Bipartisan Student Loan Certainty Act of 2013, see CRS Report R43094, *An Examination of Student Loan Interest Rate Proposals in the 113th Congress*, by David P. Smole.

This report discusses major provisions of federal student loans made available through the DL program and previously made through the FFEL program. 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 through the DL program, or made in the recent past through either program. Historical information on certain prior terms and conditions is also presented in instances where there remains substantial interest in those aspects of loans. Following a brief review of loan types in the introduction, the next section of this report reviews eligibility requirements, loan limits, interest rates, and allowable fees for these loans. 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**.

FFEL and DL Program Loan Types

The following types of federally sponsored student loans are available through the DL program and, until June 30, 2010, were available through the FFEL program: 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 Loans; Federal Direct PLUS Loans; and Federal Direct Consolidation Loans.)[11] 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, since July 1, 2012, are available only to undergraduate students.[12] To qualify for a Subsidized Stafford Loan, a student must establish financial need. With certain exceptions, the federal government "subsidizes" these loans by paying the interest that accrues on the loans while the borrower is enrolled in an eligible program on at least a half-time basis, during grace periods,[13] and during periods of authorized deferment.[14] Subsidized

[11] 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.

[12] Subsidized Stafford Loans were available to graduate and professional students for periods of instruction beginning prior to July 1, 2012.

[13] 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. According to amendments made by P.L. 112-74, there will no interest subsidy during the grace period on Subsidized Stafford Loans disbursed between July 1, 2012, and June 30, 2014.

[14] 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).

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.

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. Unsubsidized Stafford Loans for which the first disbursement is made on or after July 1, 2006, are fixed interest rate loans.

PLUS Loans

These loans are non-need-based loans and are available to parents of dependent undergraduate students and to graduate and professional students. The federal government does not pay the interest on PLUS Loans while the student on whose behalf the loan is made is in school, nor during deferment and grace periods. PLUS Loans for which the first disbursement is made on or after July 1, 2006, are fixed interest rate loans.

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. The Consolidation Loans currently being disbursed are fixed rate loans for which the interest rate 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.

Special Direct Consolidation Loans

Special Direct Consolidation Loans were available during the period from January 17, 2012, through June 30, 2012, to borrowers who had both one or more student loans made through the FFEL program and held by a commercial lender, and one or more loans made through either the DL program or the FFEL program and held by ED. Eligible borrowers were afforded the opportunity to consolidate their commercially held FFEL program loans into a Special Direct Consolidation Loan, and in doing so simplify the repayment of their loans by having them all serviced by a single entity. A number of special repayment incentives were available to borrowers who consolidated their loans under this program.[15]

[15] Additional information on Special Direct Consolidation Loans is presented below in the section on Consolidation Loans. Also, see U.S. Department of Education, Federal Student Aid, "Special Direct Consolidation Loan Information—Updated Information in Preparation for January 17, 2012 Start," December 28, 2011, http://www.ifap.ed.gov/eannouncements/122811SpecialDCLInfoUpdatedInfoinPrepfor011712.html.

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 DL program, a student borrower must meet certain eligibility requirements. These include (1) being 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 being incarcerated; (3) being a U.S. citizen or national, U.S. permanent resident, or other eligible noncitizen; (4) maintaining satisfactory academic progress as defined by the school; (5) neither being in default on a federal student loan nor owing a refund on a grant or loan made under Title IV without having made arrangements for repayment;[16] (6) having on file at the institution attended a statement of educational purpose stating that the loan will be used solely for educational expenses; and (7) meeting 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 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.

An individual's creditworthiness is taken into account in determining eligibility to borrow PLUS Loans. At least one credit report must be obtained on all applicants for PLUS Loans, and criteria for determining creditworthiness are specified in regulations. Individuals with adverse credit histories may not obtain PLUS Loans unless they either obtain an endorser who does not have an adverse credit history or they demonstrate that extenuating circumstances exist. Under regulations currently in effect, an applicant is considered to have an adverse credit history if the applicant is 90 days or more delinquent on a debt payment[17]; 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 debt under title IV."[18]

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[16] 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.

[17] An account that is in collections status or that has been charged off is considered to be 90 or more days past due.

[18] 34 C.F.R. §685.200(c)(1)(vii)(B).

Effective March 29, 2015, new PLUS Loan borrower eligibility regulations will go into effect. Under the new regulations, an applicant will be considered to have an adverse credit history if the applicant has one or more debts totaling more than $2,085 (to be adjusted for inflation) that are 90 days or more delinquent, have been placed in collection, or have been charged off by the creditor as a loss 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 debt under Title IV." In either case, to be eligible to borrow a PLUS Loan, applicants with adverse credit histories must also complete loan counseling to be offered by ED.[19]

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).

Factors That Affect Eligibility to Borrow

A student's dependency status and grade level, demonstration of financial need, and the cost of attendance (COA)[20] of the school attended affect eligibility to borrow particular types of loans and the amount that may be borrowed. 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

- is 24 years of age or older by December 31 of the award year;
- 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;
- 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;
- 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;
- is an unaccompanied youth who is homeless, or self-supporting and at risk of being homeless; or

[19] U.S. Department of Education, Office of Postsecondary Education, Final Regulations, "William D. Ford Federal Direct Loan Program," 79 *Federal Register* 205, October 23, 2014, pp. 63331-63332.

[20] 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 a student for whom a financial aid administrator makes a documented determination of independence by reason of other unusual circumstances or based upon a documented determination of independence that was previously made by another financial aid administrator in the same award year.

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.[21] The operating assumption is that the postsecondary education expenses of dependent students will be financed by students and their parents, 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.

Dependency status also determines which set of income and assets is included in need analysis calculations (discussed below). Need analysis calculations for a dependent student are based on the income and assets of both the student and the student's parents,[22] whereas need analysis calculations for an independent student are based on the income and assets of the student (and if applicable, the student's spouse).

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 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 the equivalent of three years of full-time study at an IHE, and must not be concurrently receiving Title IV aid as an undergraduate student.[23]

Graduate and professional students, all of whom are independent, are extended the highest personal borrowing limits of any students. While they are no longer eligible to borrow Subsidized Stafford Loans, graduate and professional students are eligible to borrow Unsubsidized Stafford Loans and PLUS Loans (provided that they do not have an adverse credit history).

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[21] 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.

[22] 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.

[23] 34 C.F.R. §682.201.

Amendments made by MAP-21 establish new limits on eligibility to borrow Subsidized Stafford Loans for individuals who are new borrowers on or after July 1, 2013. These individuals' eligibility to borrow Subsidized Stafford Loans is limited to a period not to exceed 150% of the published length of their academic program.

Federal Need Analysis and Award Rules

While 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 undergraduate students may borrow in need-based Subsidized Stafford Loans, up to annual loan limits (described below). Additional award rules are used to determine the amounts that may be borrowed in non-need-based Unsubsidized Stafford Loans and PLUS Loans.

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 and Unsubsidized Stafford Loan aid that an applicant is eligible to receive. The maximum Subsidized Stafford Loan amount a student is eligible to borrow is determined by summing the student's EFC and estimated financial assistance from other sources (EFA), and then subtracting this amount from the estimated COA. Subsidized Stafford Loan borrowing is capped by applicable annual loan limits. The calculation for determining Subsidized Stafford Loan eligibility is shown below:

$$\textit{Subsidized Stafford Loan eligibility} = \min[(COA-(EFC + EFA)), \textit{Subsidized Stafford Loan limit}]$$

In general, for purposes of federal student aid need analysis, a student's EFA is comprised of all scholarships, grants, loans, or other assistance known to the institution at the time the determination of the student's need is made. The EFA generally includes assistance made available through other federal student aid programs, and national service educational awards provided under Title I of the National and Community Service Act of 1990, but excludes all veterans' education benefits. However, for purposes of determining eligibility for Subsidized Stafford Loans, national service education awards are excluded from the EFA. The result of the above 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. Specifically, the amount students may borrow in Unsubsidized Stafford Loans is limited to the

lesser of (1) the result of 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 noncustodial parents) and borrowed separately. Parent borrowers are not required to complete a FAFSA to be eligible to borrow parent PLUS Loans; however, the student on whose behalf the loan is made must have completed a FAFSA. Graduate and professional students 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 (described below) are included in the amount subject to these limits. Borrowing limits for Stafford Loans vary by borrower dependency status and grade level.

Borrowing limits for students enrolled for less than one year 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 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 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.[24]

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[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.
Aggregate loan limits[a]			
All	23,000	57,500	n.a.
Independent Graduate and Professional			
Annual loan limits			
In general	n.a.	20,500	Up to COA-EFA
Aggregate loan limits[c]			
In general	65,000[d]	138,500	Not limited[e]
Parents of Dependent Undergraduate Students			
Annual loan limits			
All borrowers	n.a.	n.a.	Up to COA-EFA

[24] 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 ($)
Aggregate loan limits			
All borrowers	n.a.	n.a.	Not limited[e]

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

Notes: "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. 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.

d. The aggregate loan limit for Subsidized Stafford Loans to graduate and professional students applies to loans borrowed for programs of instruction beginning before July 1, 2012.

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

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 **Table B-1** (see **Appendix B**). Historical listings of annual and aggregate loan limits are presented in **Table B-2** and **Table B-3**, respectively (see **Appendix B**).

Interest Rates

Stafford Loans

The interest rates applicable to Stafford Loans are established by statute.[25] 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.[26] The formula used to calculate the variable interest rate for

[25] The statutorily specified rates are maximum rates and are the rates generally charged to borrowers. However, when loans were being made through the FFEL program some lenders may have voluntarily made loans with lower interest rates.

[26] 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 (continued...)

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).[27] 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.[28] 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.[29] The maximum interest rate that may apply to Stafford Loans disbursed during this period is capped at 8.25%.

All Stafford Loans first disbursed on or after July 1, 2006, and before July 1, 2013, have statutorily specified fixed rates. A fixed rate of 6.8% applies to all Stafford Loans made during this period, with the exception of Subsidized Stafford Loans made to undergraduate students on or after July 1, 2006, and before July 1, 2013, which have lower rates.

All Stafford Loans first disbursed on or after July 1, 2013, have market-indexed fixed rates. The interest rate on Stafford Loans to undergraduate students is the 10-year Treasury note rate plus 2.05 percentage points, with a cap of 8.25%. The interest rate on Stafford Loans to graduate and professional students is the 10-year Treasury note rate plus 3.6 percentage points, with a cap of 9.5%.

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 these PLUS Loans are determined every June 1, and become effective July 1 for the following 12-month period.[30] The interest rate formula for "new" PLUS loans that were 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%.

(...continued)

loan.

[27] 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 B-9** in **Appendix B**).

[28] 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.

[29] 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.

[30] 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, 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.

All PLUS Loans first disbursed on or after July 1, 2006, and before July 1, 2013, have statutorily specified fixed rates. Those made under the DL program have a fixed interest rate of 7.9%, while those made under the FFEL program before July 1, 2010, have a fixed interest rate of 8.5%. In the 107th Congress, a fixed interest rate of 7.9% had been established prospectively for PLUS loans disbursed on or after July 1, 2006, under both the FFEL and DL programs.[31] Under the Higher Education Reconciliation Act (HERA),[32] 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.[33]

All PLUS Loans first disbursed on or after July 1, 2013, have market-indexed fixed rates. The interest rate on PLUS Loans is the 10-year Treasury note rate plus 4.6 percentage points, with a cap of 10.5%.

Interest rates applicable to DL program loans made during the current award year are presented below in **Table 2**. 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 B-4** (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** (see **Appendix B**). A history of PLUS Loan interest rates and interest rate formulas is presented in **Table B-6** (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 B-7** (see **Appendix B**).

Table 2. DL program Student Loan Interest Rates

AY2014-2015

Disbursement Period	Fixed Interest Rate in Effect		
	Subsidized Stafford Loans (%)	Unsubsidized Stafford Loans (%)	PLUS Loans (%)
July 1, 2014-June 30, 2015			
Undergraduate students	4.66	4.66	n.a.
Graduate and professional students	n.a.	6.21	7.21
Parents of undergraduate dependent students	n.a.	n.a.	7.21

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

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

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

[32] 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.

[33] 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.

Borrower Fees

In addition to being responsible for repaying loan principal and interest, borrowers of DL program Stafford Loans and PLUS Loans are responsible for paying a loan origination fee. When loans were being made through the FFEL program, borrowers were responsible for paying a loan origination fee and a default fee (at one time, this fee had been referred to as a loan insurance fee). Borrower fees help offset federal subsidy costs by passing along some of the costs to borrowers.

The HEA specifies a loan origination fee of 1% for all DL program Stafford Loans disbursed on or after July 1, 2010; and a loan origination fee of 4% for all DL program PLUS Loans. ED does not charge a loan origination fee on DL program Consolidation Loans. Loan origination fees are calculated as a proportion of the loan principal borrowed and are deducted proportionately from each disbursement of 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 to be applied toward education expenses, after the deduction of borrower fees, is often referred to as the net disbursement amount.)

Higher borrower fees were charged on loans that were disbursed before July 1, 2010. Under the FFEL program, on 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% of the loan amount. And, during that period guaranty agencies could assess a loan insurance premium of not more than 1% on Stafford Loans and PLUS Loans. In the DL program, borrowers were required to pay a 4% origination fee to the federal government from the beginning of the program until August 15, 1999, when ED reduced the origination fees on Stafford Loans to 3%.[34]

Changes to borrower fees were enacted under the HERA for both FFEL and DL program loans. Under the FFEL program, all loans disbursed on or after July 1, 2006, were subject to a default fee of up to 1%, which replaced a 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 was incrementally reduced by 0.5 percentage point per year and, had lending under the FFEL program not ceased, would have been phased out for loans first disbursed on or after July 1, 2010. The origination fee for FFEL program PLUS Loans remained at 3%.

The HERA also established in statute specific origination fees for DL program loans. 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 was reduced by 0.5 percentage points each subsequent year, until it reached the amount of 1% for Stafford Loans disbursed on or after July 1, 2010. The origination fee for PLUS Loans remained at 4%. A history of borrower fees on Stafford Loans and PLUS Loans is presented in **Table B-8** (see **Appendix B**).

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

Impact of Sequestration on Borrower Fees

During periods when a budget sequestration order applicable to direct spending programs is in effect, special rules apply to the origination fees on DL program loans.[35] In instances where the first disbursement of a DL program Stafford Loan or PLUS Loan is made while a sequestration order is in effect, the loan origination fee is required to be increased by the uniform percentage sequestration amount applicable to nondefense, mandatory spending programs. OMB has identified uniform percentage amount of 7.3% for FY2015.[36] ED has announced revised loan origination fees that depend on the period during which the first disbursement of a loan is made. Accordingly, with respect to loans for which the first disbursement is made on or after October, 1, 2014, and before October 1, 2015, a fee of 1.073% applies to Subsidized Stafford Loans and Unsubsidized Stafford Loans, and a fee of 4.292% applies to PLUS Loans.[37]

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 paid due to the longer period over which interest accrues). In addition, with Consolidation Loans currently being made through the DL program, borrowers are afforded 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%. ED does not assess origination fees on Consolidation Loans.

Eligibility Requirements

In general, to be eligible to obtain a Consolidation Loan under the DL program, 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). 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). Certain 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

[35] For additional information on how budget sequestration affects federal student loans, see CRS Report R42050, *Budget "Sequestration" and Selected Program Exemptions and Special Rules*, coordinated by Karen Spar.

[36] Executive Office of the President, Office of Management and Budget (OMB), *OMB Sequestration Preview Report to the President and Congress for Fiscal Year 2015*, March 10, 2014, Appendix: Direct Spending Sequestrable Budgetary Resources and Reductions by Budget Account, p. 7.

[37] U.S. Department of Education, Dear Colleague Letter GEN-14-10, "FY2015 Sequester Required Changes to the Title IV Student Aid Programs," May 2, 2014.

(HEAL); Health Professions Student Loans (HPSL); Loans for Disadvantaged Students (LDS); and Nursing Loans.

In general, an applicant for a Consolidation Loan 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 income-based repayment (IBR) plan or the income-contingent repayment (ICR) plan. For a borrower with a defaulted loan, making "satisfactory repayment arrangements" for purposes of obtaining a 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, a borrower who is in default and who is subject to a court judgment or wage garnishment is not eligible to obtain a Consolidation Loan.

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 existing 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 ICR or IBR plans. Finally, borrowers of existing 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 for receiving the no accrual of interest for active duty servicemembers benefit available to borrowers of DL program loans.

Interest Rates

At present, interest rates on Consolidation Loans 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%. The Bipartisan Student Loan Certainty Act of 2013 removed the 8.25% cap on interest rates that had previously applied. 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 B-9** (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 interest rate for the Consolidation Loan.

Loan Consolidation and Borrower Benefits

Borrowers of Consolidation Loans must be provided with a disclosure of whether consolidation of their FFEL or DL program loans would result in the loss 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, the maximum interest rates and fees that may be paid by borrowers of FFEL and DL program loans are established by statutory and regulatory provisions. In the FFEL program, the lender was required to pay the origination fee to the federal government; and the lender could choose whether or not to pass the entire fee on to the borrower, within certain limitations.[38] The default fee (which defrays federal default costs) was paid to the guaranty agency for the guarantor's locally held federal reserve fund. If the default fee was paid by the borrower, it was required to have been deducted proportionally from the proceeds of the loan prior to payment to the borrower. The default fee also could have been paid by other nonfederal sources (e.g., by the lender or the guarantor).

Lenders in the FFEL program often used to compete for borrowers by offering different packages of interest rate and fee discounts. To attract borrowers, lenders might have paid origination fees or default fees without passing on the cost to students. Similarly, to attract loan business, guaranty agencies might have opted 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 competed with each other for business.

Under the DL program, until June 30, 2012, the Secretary was authorized to offer a variety of interest rate reductions to borrowers as a means of encouraging on-time repayment.[39] Any such reductions made under the DL program were required to be cost neutral to the government. Amendments made by the BCA, curtailed the authority of the Secretary to offer all but one type of repayment incentive on loans made under the DL program after June 30, 2012—a 0.25 percentage point interest rate reduction for repaying by electronic debit account (EDA) repayment. This section briefly describes examples of the types of loan discounts and interest rebates that were once commonly offered to borrowers of FFEL and DL program loans.[40]

[38] 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).

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

[40] The student loan discounts and repayment incentives described in this section were permitted to be made available to borrowers, but were not required to have been provided.

Loan Discounts Under the FFEL Program

FFEL program lenders had broad discretion in whether to offer loan discounts and in how they structured these benefits. While relatively few loan discounts were made available in the final years of FFEL program lending, in past years a wide variety of student loan discounts were typically offered by lenders—for example, fees being paid on behalf of a borrower, and reductions in interest rates. Some benefits were 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, might 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 that were offered by FFEL program lenders are described below.[41]

Origination Fee and/or Default Fee Paid by Lender

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

Interest Rate Reductions

Some lenders offered interest rate reductions to borrowers for reaching certain milestones. For example, a lender may have offered to 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 were also offered to borrowers for signing up for EDA repayment, whereby loan payments are automatically deducted from their checking or savings account (e.g., a 0.25 percentage point interest rate reduction for EDA repayment).

Principal Balance Reductions

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

[41] 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 offered to forgive the last several payments on a borrower's loan (e.g., the last six payments).[42] This type of benefit may have been structured so that it only applied 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

Two repayment incentive programs were once 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 could take advantage of either or both. However, the only repayment incentive that may be offered on loans first disbursed on or after July 1, 2012, is the interest rate reduction for EDA repayment.

Up-Front Interest Rebate

Borrowers of Stafford Loans made under the DL program on or after July 1, 2010, and before July 1, 2012, paid an origination fee of 1.0% and received a 0.5% up-front interest rebate. Borrowers of PLUS Loans made before July 1, 2012, paid an origination fee of 4% and received an up-front interest rebate of 1.5%. The rebate was equal to a percentage of the principal loan amount borrowed and it was applied by increasing the borrower's loan proceeds, or the borrower's net disbursement.[43] 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 percentage point 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.

[42] 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. 661-664 in S.Prt. 111-58, *Tax Expenditures: Compendium of Background Material on Individual Provisions*, 2010.

[43] 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.)[44] 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, with certain exceptions, the federal government pays the interest that accrues while the borrower is 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). Recent changes to the DL program, however, curtail the interest subsidy for some borrowers of Subsidized Stafford Loans. Due to amendments made by the FY2012 Consolidated Appropriations Act, interest is not subsidized during the six-month grace period on Subsidized Stafford Loans disbursed between July 1, 2012, and June 30, 2014. Also, due to amendments made by MAP-21, the period during which interest will be subsidized on Subsidized Stafford Loans is limited to 150% of the published length of the borrower's academic program for individuals who are new borrowers on or after July 1, 2013.

In contrast to Subsidized Stafford Loans, with Unsubsidized Stafford Loans and PLUS Loans, borrowers are responsible for paying all of the interest that accrues on their loans. Borrowers of Unsubsidized Stafford Loans and PLUS Loans may pay the interest that accrues on their loans prior to entering repayment, while they are enrolled in school and during the six-month grace period, on either 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. In both the FFEL and DL programs, if a borrower makes a prepayment that equals or exceeds the monthly payment amount the prepayment is applied to future installments and the next payment due date is advanced or postponed, unless the borrower

[44] 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.

requests otherwise.[45] For example, if a borrower makes a large lump sum payment, the standard practice is for the amount that exceeds the monthly payment amount to be applied to future payments on a month-by-month basis until the full prepayment amount has been applied. Alternatively, a borrower may request that the extra payment amount be applied to the principal balance, resulting in a shortening of the remaining payment period.

Repayment Plans

Borrowers of FFEL and DL program loans are given the opportunity to choose from among a selection of repayment plan options for the repayment of their loans. The particular repayment plans available to a borrower depends on the types of loans borrowed and the programs under which the loans were made. The availability of certain repayment plans to an individual also may depend upon the date of becoming a new borrower or of entering repayment.

Borrowers of both FFEL and DL program loans may repay according to the standard repayment plan, the graduated repayment plan, the extended repayment plan, or the income-based repayment (IBR) plan[46] options. Borrowers of FFEL program loans may also repay according to the income-sensitive repayment (ISR) plan, whereas borrowers of DL program loans may also repay according to the income-contingent repayment (ICR) plan, the Pay As You Earn (PAYE) repayment plan, or alternative repayment plans. (However, parent borrowers of PLUS Loans and borrowers of Consolidation Loans containing PLUS Loans made to parent borrowers are not eligible to repay according to the IBR plan or the PAYE repayment plan.)

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.[47] The 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—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.[48] 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, graduated, extended, and income-sensitive repayment plans, payment amounts may not be less than the interest due.[49]

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[45] 34 C.F.R. §§682.209(b)(2) and 685.211(a).

[46] The IBR plan became available to borrowers July 1, 2009.

[47] 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.

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

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

Under the FFEL program, to the extent practicable, all of a borrower's loans held by 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 the borrower's 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,[50] for a period of up to 10 years.[51] For loans with variable interest rates, the loan holder may annually adjust either the monthly payment amount or the length of the repayment 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.[52] 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 3**. (The repayment periods shown also apply to the graduated and income-sensitive repayment plans.)

Table 3. 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

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

[51] 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.

[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.

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 three times the amount of any other.[53] 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 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.[54] 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 3**.

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.[55] 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.

[53] See 34 C.F.R §§682.209(a)(7)(ii) and 685.209.

[54] 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.

[55] 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.

Income-Based Repayment Plan

The IBR plan is designed to present borrowers the opportunity to make monthly payment amounts based on the relationship between their student loan debt and their incomes. It affords borrowers who experience prolonged periods of low income the prospect of debt forgiveness. A borrower must be experiencing a "partial financial hardship" (described below) in order to qualify to repay according to the IBR plan. There are two versions of the IBR plan. One is available to all individuals who became new borrowers before July 1, 2014, while the other is available only to individuals who became new borrowers of DL program loans on or after July 1, 2014.

Original IBR plan

The original IBR plan is available to borrowers of FFEL and DL program loans (except parent borrowers of PLUS Loans, and borrowers of Consolidation Loans that are used to repay PLUS Loans made to parent borrowers) during any period in which they demonstrate having a partial financial hardship. Borrowers are determined to have a partial financial hardship if their total annual payments on eligible FFEL and DL program loans, as calculated according to a standard 10-year repayment period based on the greater of the amount owed at the time the borrower initially entered repayment or the amount owed at the time the borrower elects to repay according to the IBR plan, are greater than 15% of the amount by which their AGI exceeds 150% of the poverty line.

For example, based on the 2014 HHS Poverty Guidelines, 150% of the poverty line for a family of one in the 48 contiguous states and the District of Columbia is $17,505.[56] 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 $3,374, or $281 per month. ($3,374 is 15% of the result of subtracting $17,505 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 150% of 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, the payment amounts under the IBR plan are 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, the payment amount under the IBR plan is based solely on that individual's student loan debt and AGI. Since July 1, 2010, married borrowers have been able to elect to repay their loans jointly according to the IBR plan based on their combined loan balances and combined AGI. For married

[56] For additional information on poverty guidelines, see U.S. Department of Health and Human Services, Assistance Secretary for Planning and Evaluation, *HHS Poverty Guidelines, 2014*," http://aspe.hhs.gov/poverty/14poverty.cfm (hereinafter referred to as *HHS Poverty Guidelines, 2014*). In 2014, for a family of one, the HHS poverty guideline is $11,670; for a family of two it is $15,730; for a family of three it is $19,790; and for a family of four it is $23,850.

borrowers repaying jointly according to the IBR plan, individual payment amounts will be determined in proportion to the amount owed by each borrower.

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 is paid by the Secretary for a period not to exceed three years.[57] Any unpaid interest that accrues on an unsubsidized loan,[58] or on a Subsidized Stafford Loan after the three-year period, is 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 on their eligible loan or loans that remains after 25 years (or a period equivalent to 25 years of payments) in repayment or economic hardship deferment forgiven by the Secretary if, during that 25-year period, they

- made reduced monthly payments according to the IBR plan 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 a repayment plan other than IBR of not less than the amount required under the standard repayment plan, based on a 10-year repayment period;
- made payments under the ICR plan; or
- received an economic hardship deferment.

IBR plan for New Borrowers On or After July 1, 2014

The SAFRA Act amends two aspects of the IBR plan for individuals who, on or after July 1, 2014, are new borrowers of DL program loans. First, the thresholds used in determining whether borrowers have a partial financial hardship and in determining their maximum monthly payment amounts while they have a partial financial hardship are reduced from 15% to 10% of the portion of their AGI that exceeds 150% of the poverty line applicable to their family size. Second, the period over which borrowers repaying according to the IBR plan must remain in repayment status or economic hardship deferment before having the remainder of their federal student loan balance forgiven is reduced from 25 years to 20 years.

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

[58] Unsubsidized loans include Unsubsidized Stafford Loans, PLUS Loans, and portions of Consolidation Loans attributable to the repayment of loans other than Subsidized Stafford Loans.

While repaying according to the New IBR plan, monthly amounts due on borrowers' loans may range from $0, for borrowers with incomes at or below 150% of the poverty line, to a maximum of one-twelfth of 10% of any amount by which their AGI exceeds 150% of the poverty line. Thus, following the example used above, based on the 2014 HHS Poverty Guidelines, under the New IBR plan, 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 $2,250, or $187 per month. ($2,250 is 10% of the result of subtracting $17,505 from $40,000.)

Income-Contingent Repayment Plan

Repayment according to the ICR plan also affords borrowers the opportunity to make loan payment amounts based on the relationship between their student loan debt and their income; and the prospect of debt forgiveness for those who experience prolonged periods with low incomes. The ICR plan is available to borrowers of Stafford Loans, graduate and professional student borrowers of PLUS Loans, and most borrowers of Consolidation Loans. Parent borrowers of PLUS Loans are not eligible to repay 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.[59] 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;[60] or (2) 20% of the amount by which the borrower's AGI exceeds the poverty line.[61] 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 will not be capitalized, but must still be paid by the borrower.

The ICR plan has a maximum repayment period of 25 years. If after 25 years of repaying according to the ICR plan (not including time in deferment or forbearance) a borrower still has a loan balance, the remaining unpaid balance of the loan will be discharged or forgiven.

[59] 34 C.F.R. §685.209. A special 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.

[60] Income percentage factors range from 50.52% to 200%, depending on income and income tax filing status. See U.S. Department of Education, Office of Federal Student Aid, "Annual Updates to the Income Contingent Repayment (ICR) Plan Formula for 2013—William D. Ford Federal Direct Loan Program," 78 *Federal Register*, 33395-33398, http://www.ifap.ed.gov/fregisters/attachments/FR060413.pdf.

[61] *HHS Poverty Guidelines, 2013*.

Pay As You Earn (PAYE) Repayment Plan

The PAYE repayment plan became available December 21, 2012, to individuals who are new borrowers on or after October 1, 2007; and who either receive a disbursement on a DL program loan on or after October 1, 2011, or receive a DL program Consolidation Loan based on an application received by ED on or after October 1, 2011. The PAYE plan is substantially similar to the IBR plan that is available to individuals who are new borrowers on or after July 1, 2014 (described above). Borrowers may repay FFEL and DL program loans according to the PAYE plan except for PLUS Loans made to parent borrowers and Consolidation Loans used to repay such loans.

Borrowers must have a partial financial hardship to qualify to repay according to the PAYE plan. This means that their total annual payments on eligible FFEL and DL program loans are greater than 10% of the amount by which their AGI exceeds 150% of the poverty line, as calculated according to a standard 10-year repayment period based on the greater of the amount owed at the time the borrower initially entered repayment or the amount owed at the time the borrower elects to repay according to the PAYE plan.

While repaying according to the PAYE plan, monthly amounts due on borrowers' loans may range from $0, for borrowers with incomes at or below 150% of the poverty line, to a maximum of one-twelfth of 10% of any amount by which their AGI exceeds 150% of the poverty line. Borrowers who have a loan balance remaining after 20 years of repayment according to the PAYE plan may have the remaining loan balance forgiven.

Income-Sensitive Repayment Plan

Under an income-sensitive repayment plan, monthly payment amounts are adjusted annually according to 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 on changes in a borrower's income over a period of time that may range from 10 to 30 years, depending on the borrower's outstanding loan balance at the time of entering repayment.[62] Similar to the standard repayment plan, determination of the length

[62] 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.

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 3**.

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. There is a minimum payment amount of $5 and payments cannot vary by more than three times the amount of the smallest payment. 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. Four different alternative repayment plans are currently offered:

1. Alternative Fixed Payment,
2. Alternative Fixed Term,
3. Alternative Graduated, and
4. Alternative Negative Amortization.

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. (Exceptions apply with respect to the IBR and PAYE plans, for which periods in economic hardship deferment are included in the total 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.[63] 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.

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

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[63] 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.

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

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, or state general public assistance);
- 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); 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.

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 deferment periods, during which the interest that accrues on Subsidized Stafford Loans is paid by the federal government, during periods of forbearance borrowers are liable for all the interest that accrues on their loans. Any interest that accrues during forbearance 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 members 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 service 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 servicemembers 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 Servicemembers

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.

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[64] For additional information on the SCRA, see CRS Report RL34575, *The Servicemembers Civil Relief Act (SCRA): An Explanation*, 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 the borrower 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 and interest amount for collection costs.

Offset of Social Security Benefits

Social Security benefits are subject to being offset by up to 15% of the monthly benefit 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 a FFEL or DL program loan are ineligible for federal student aid under Title IV. Student loan defaulters 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 student loan defaulters 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

Liability for FFEL and DL program loans is discharged in the case of borrowers who die, who become permanently and totally disabled, or 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. 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 for purposes of student loan discharge.

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 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

[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.

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.[70]

Loan Forgiveness for Teachers

Loan forgiveness for teachers is authorized for borrowers of FFEL and DL program Stafford Loans.[71] Under the program, new borrowers, who had no outstanding balance on Title IV loans on or after October 1, 1998,[72] may be granted loan forgiveness after having served as a full-time teacher for five consecutive[73] complete school years in certain low-income schools or locations.[74] At least one 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 Stafford Loan 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 be highly qualified teachers, as defined in the Elementary and Secondary Education Act (ESEA), Section 9101.

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[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] A more comprehensive review of loan forgiveness programs is presented in CRS Report R43571, *Federal Student Loan Forgiveness and Loan Repayment Programs*, coordinated by Alexandra Hegji.

[71] Loan forgiveness for teachers was enacted under the Higher Education Amendments of 1998 (P.L. 105-244).

[72] 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.

[73] 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 than 30 days in a reserve component of the Armed Forces.

[74] 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.

Mathematics, Science, and Special Education Teachers

Up to $17,500 in loan forgiveness is available to Stafford Loan 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.[75] 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 Section 501(c)(3) of the IRC and exempt from taxation under Section 501(a); or teaching as a full-time faculty member at a Tribal College or University as defined in Section 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 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; occupational therapists;

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[75] 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.

and allied health professionals. 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 annually at such sums as may be necessary and, subject to the appropriation of funds, will be available to borrowers on a first come, first served basis.[76]

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 annually at such sums as may be necessary through FY2014. Subject to the appropriation of funds, loan repayment will be available to borrowers on a first come, first served basis.[77]

[76] 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.

[77] 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[bc]			
In general	23,000	31,000	n.a.
Independent Undergraduate[d]			
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[bc]			
In general	23,000	57,500	n.a.

Borrower Dependency Status and Grade Level	Subsidized Stafford Loans ($)	Total Subsidized & Unsubsidized Stafford Loans ($)	PLUS Loans ($)
Graduate and Professional			
Annual loan limits			
In general	n.a.	20,500	Up to COA-EFC[e]
Health professions programs[f]	n.a.	40,500 to 47,167	Up to COA-EFA[e]
Health professions programs[g]	n.a.	33,000 to 37,167	Up to COA-EFA[e]
Aggregate loan limits[bch]			
In general	65,500[i]	138,500	Not limited[e]
Health professions programs	65,500[i]	224,000	Not limited[e]
Parents of Dependent Undergraduate Students			
Annual loan limits			
All	n.a.	n.a.	Up to COA-EFC[e]
Aggregate loan limits[bc]			
In general	n.a.	n.a.	Not limited[e]

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

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

a. For individuals who have obtained a baccalaureate degree.

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

c. 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.

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

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.

i. The aggregate loan limit for Subsidized Stafford Loans to graduate and professional students applies to loans borrowed for programs of instruction beginning before July 1, 2012.

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

Borrower Type and Class Level or Program	Subsidized Stafford Loans[a] ($)	Total Subsidized & Unsubsidized Stafford Loans[a] ($)	PLUS Loans ($)
Nov. 8, 1965-Feb. 28, 1973			
Dependent undergraduate students[b]			
In general	1,000	n.a.	n.a.
Independent undergraduate students[b]			
In general	1,000	n.a.	n.a.
Graduate and professional students			
In general	1,500	n.a.	n.a.
Parents of dependent undergraduate students			
In general	n.a.	n.a.	n.a.
Mar. 1, 1973-Sep. 30, 1976			
Dependent undergraduate students			
In general	2,500	n.a.	n.a.
Independent undergraduate students			
In general	2,500	n.a.	n.a.
Graduate and professional students			
In general	2,500	n.a.	n.a.
Parents of dependent undergraduate students			
In general	n.a.	n.a.	n.a.
Oct. 1, 1976-Sep. 30, 1980			
Dependent undergraduate students			
In general	2,500	n.a.	n.a.
Independent undergraduate students			
In general	2,500	n.a.	n.a.
Graduate and professional students			
In general	5,000	n.a.	n.a.
Parents of dependent undergraduate students			
In general	n.a.	n.a.	n.a.
Oct. 1, 1980-Sep. 30, 1981[c]			
Dependent undergraduate students			
In general	2,500	n.a.	n.a.
Independent undergraduate students			
In general	3,000	n.a.	n.a.

Borrower Type and Class Level or Program	Subsidized Stafford Loans[a] ($)	Total Subsidized & Unsubsidized Stafford Loans[a] ($)	PLUS Loans ($)
Graduate and professional students			
In general	5,000	n.a.	n.a.
Parents of dependent undergraduate students			
In general	n.a.	n.a.	3,000
Oct. 1, 1981-Dec. 31, 1986[c]			
Dependent undergraduate students			
In general	2,500	n.a.	n.a.
Independent undergraduate students			
In general	2,500	n.a.	n.a.
Graduate and professional students			
In general	5,000	n.a.	n.a.
Parents of dependent undergraduate students			
In general	n.a.	n.a.	3,000
Jan. 1, 1987-Sep. 30, 1992[d]			
Dependent undergraduate students			
1st two years	2,625	n.a.	n.a.
3rd year and above	4,000	n.a.	n.a.
Independent undergraduate students			
1st two years	2,625	n.a.	n.a.
3rd year and above	4,000	n.a.	n.a.
Graduate and professional students			
In general	7,500	n.a.	n.a.
Parents of dependent undergraduate students			
In general	n.a.	n.a.	4,000
Oct. 1, 1992-Sep. 30, 1993			
Dependent undergraduate students			
1st year	2,625	2,625	n.a.
2nd year	3,500	3,500	n.a.
3rd year and above	5,500	5,500	n.a.
Independent undergraduate students			
1st year	2,625	2,625	n.a.
2nd year	3,500	3,500	n.a.
3rd year and above	5,500	5,500	n.a.
Graduate and professional students			
In general	7,500	7,500	n.a.

Borrower Type and Class Level or Program	Subsidized Stafford Loans[a] ($)	Total Subsidized & Unsubsidized Stafford Loans[a] ($)	PLUS Loans ($)
Parents of dependent undergraduate students			
In general	n.a.	n.a.	Up to COA-EFA
Oct. 1, 1993-June 30, 1994[de]			
Dependent undergraduate students			
1st year	2,625	2,625	n.a.
2nd year	3,500	3,500	n.a.
3rd year and above	5,500	5,500	n.a.
Independent undergraduate students			
1st year	2,625	2,625	n.a.
2nd year	3,500	3,500	n.a.
3rd year and above	5,500	5,500	n.a.
Graduate and professional students			
In general	8,500	8,500	n.a.
Parents of dependent undergraduate students			
In general	n.a.	n.a.	Up to COA-EFA
July 1, 1994-Oct. 1, 1998[f]			
Dependent undergraduate students			
1st year	2,625	2,625	n.a.
2nd year	3,500	3,500	n.a.
3rd year and above	5,500	5,500	n.a.
Independent undergraduate students			
1st year	2,625	6,625	n.a.
2nd year	3,500	7,500	n.a.
3rd year and above	5,500	10,500	n.a.
Graduate and professional students			
In general	8,500	18,500	n.a.
Health professions programs[g]	8,500	38,500 to 45,167	n.a.
Health professions programs[h]	8,500	31,000 to 35,167	n.a.
Parents of dependent undergraduate students			
In general	n.a.	n.a.	Up to COA-EFA
Oct. 1, 1998-Jun. 30, 2007			
Dependent undergraduate students			
1st year	2,625	2,625	n.a.
2nd year	3,500	3,500	n.a.
3rd year and above	5,500	5,500	n.a.

Borrower Type and Class Level or Program	Subsidized Stafford Loans[a] ($)	Total Subsidized & Unsubsidized Stafford Loans[a] ($)	PLUS Loans ($)
Preparatory coursework for undergraduate degree or certificate program	2,625	2,625	n.a.
Preparatory coursework for graduate or professional program	5,500	5,500	n.a.
Teacher certification	5,500	5,500	n.a.
Independent undergraduate students			
1st year	2,625	6,625	n.a.
2nd year	3,500	7,500	n.a.
3rd year and above	5,500	10,500	n.a.
Preparatory coursework for undergraduate degree or certificate program	2,625	6,625	n.a.
Preparatory coursework for graduate or professional program	5,500	10,500	n.a.
Teacher certification	5,500	10,500	n.a.
Graduate and professional students			
In general	8,500	18,500	n.a.
Health professions programs[g]	8,500	38,500 to 45,167	n.a.
Health professions programs[h]	8,500	31,000 to 35,167	n.a.
Parents of dependent undergraduate students			
In general	n.a.	n.a.	Up to COA-EFA
Jul. 1, 2007-Jun. 30, 2008			
Dependent undergraduate students			
1st year	3,500	3,500	n.a.
2nd year	4,500	4,500	n.a.
3rd year and above	5,500	5,500	n.a.
Preparatory coursework for undergraduate degree or certificate program	2,625	2,625	n.a.
Preparatory coursework for graduate or professional program	5,500	5,500	n.a.
Teacher certification	5,500	5,500	n.a.
Independent undergraduate students			
1st year	3,500	7,500	n.a.
2nd year	4,500	8,500	n.a.
3rd year and above	5,500	10,500	n.a.
Preparatory coursework for undergraduate degree or certificate program	2,625	6,625	n.a.
Preparatory coursework for graduate or professional program	5,500	10,500	n.a.

Borrower Type and Class Level or Program	Subsidized Stafford Loans[a] ($)	Total Subsidized & Unsubsidized Stafford Loans[a] ($)	PLUS Loans ($)
Teacher certification	5,500	10,500	n.a.
Graduate and professional students			
In general	8,500	20,500	Up to COA-EFA
Health professions programs[g]	8,500	40,500 to 47,167	Up to COA-EFA
Health professions programs[h]	8,500	33,000 to 37,167	Up to COA-EFA
Parents of dependent undergraduate students			
In general	n.a.	n.a.	Up to COA-EFA
July 1, 2008-June 30, 2012			
Dependent undergraduate students			
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	5,500	5,500	n.a.
Teacher certification	5,500	5,500	n.a.
Independent undergraduate students			
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	5,500	12,500	n.a.
Teacher certification	5,500	12,500	n.a.
Graduate and professional students			
In general	8,500	20,500	Up to COA-EFA
Health professions programs[g]	8,500	40,500 to 47,167	Up to COA-EFA
Health professions programs[h]	8,500	33,000 to 37,167	Up to COA-EFA
Parents of dependent undergraduate students			
In general	n.a.	n.a.	Up to COA-EFA
On or after July 1, 2012			
Dependent undergraduate students			
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.

Borrower Type and Class Level or Program	Subsidized Stafford Loans[a] ($)	Total Subsidized & Unsubsidized Stafford Loans[a] ($)	PLUS Loans ($)
Preparatory coursework for undergraduate degree or certificate program	2,625	2,625	n.a.
Preparatory coursework for graduate or professional program	5,500	5,500	n.a.
Teacher certification	5,500	5,500	n.a.
Independent undergraduate students			
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	5,500	12,500	n.a.
Teacher certification	5,500	12,500	n.a.
Graduate and professional students			
In general	n.a.	20,500	Up to COA-EFA
Health professions programs[g]	n.a.	40,500 to 47,167	Up to COA-EFA
Health professions programs[h]	n.a.	33,000 to 37,167	Up to COA-EFA
Parents of dependent undergraduate students			
In general	n.a.	n.a.	Up to COA-EFA

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. 103-208; P.L. 105-244; P.L. 109-171; P.L. 110-227; P.L. 112-25; 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).

Notes: "n.a." means not applicable

a. Subsidized Stafford Loans were referred to as Guaranteed Student Loans until July 1, 1988. Prior to November 1, 1978, interest subsidies on Guaranteed Student Loans were available only borrowers whose family income was below specified income ceilings. Effective November 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.

b. Undergraduate students first became categorized as either dependent or independent students effective October 1, 1980.

c. For the period from January 1, 1981, to December 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. From the period from January 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 January 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

Borrower Type and Class Level or Program	Subsidized Stafford Loans[a] ($)	Total Subsidized & Unsubsidized Stafford Loans[a] ($)	PLUS Loans ($)
Nov. 8, 1965-Feb. 28, 1973			
Dependent undergraduate students[b]			
In general	7,500	n.a.	n.a.
Independent undergraduate students[b]			
In general	7,500	n.a.	n.a.
Graduate and professional students			
In general	7,500	n.a.	n.a.
Parents of dependent undergraduate students			
In general	n.a.	n.a.	n.a.
Mar. 1, 1973-Sep. 30, 1976			
Dependent undergraduate students			
In general	7,500	n.a.	n.a.
Independent undergraduate students			
In general	7,500	n.a.	n.a.
Graduate and professional students			
In general	10,000	n.a.	n.a.
Parents of dependent undergraduate students			
In general	n.a.	n.a.	n.a.

Borrower Type and Class Level or Program	Subsidized Stafford Loans[a] ($)	Total Subsidized & Unsubsidized Stafford Loans[a] ($)	PLUS Loans ($)
Oct. 1, 1976-Sep. 30, 1980			
Dependent undergraduate students			
In general	7,500	n.a.	n.a.
Independent undergraduate students			
In general	7,500	n.a.	n.a.
Graduate and professional students			
In general	15,000	n.a.	n.a.
Parents of dependent undergraduate students			
In general	n.a.	n.a.	n.a.
Oct. 1, 1980-Sep. 30, 1981[c]			
Dependent undergraduate students			
In general	12,500	n.a.	n.a.
Independent undergraduate students			
In general	15,000	n.a.	n.a.
Graduate and professional students			
In general	25,000	n.a.	n.a.
Parents of dependent undergraduate students			
In general	n.a.	n.a.	15,000
Oct. 1, 1981-Dec. 31, 1986[c]			
Dependent undergraduate students			
In general	12,500	n.a.	n.a.
Independent undergraduate students			
In general	12,500	n.a.	n.a.
Graduate and professional students			
In general	25,000	n.a.	n.a.
Parents of dependent undergraduate students			
In general	n.a.	n.a.	15,000
Jan. 1, 1987-Sep. 30, 1992[d]			
Dependent undergraduate students			
In general	17,250	n.a.	n.a.
Independent undergraduate students			
In general	17,250	n.a.	n.a.
Graduate and professional students			
In general	54,750	n.a.	n.a.
Parents of dependent undergraduate students			

Borrower Type and Class Level or Program	Subsidized Stafford Loans[a] ($)	Total Subsidized & Unsubsidized Stafford Loans[a] ($)	PLUS Loans ($)
In general	n.a.	n.a.	20,000
Oct. 1, 1992-June 30, 1993[d]			
Dependent undergraduate students			
In general	23,000	23,000	n.a.
Independent undergraduate students			
In general	23,000	23,000	n.a.
Graduate and professional students			
In general	65,500	65,500	n.a.
Parents of dependent undergraduate students			
In general	n.a.	n.a.	20,000
July 1, 1993-June 30, 1994[d]			
Dependent undergraduate students			
In general	23,000	23,000	n.a.
Independent undergraduate students			
In general	23,000	23,000	n.a.
Graduate and professional students			
In general	65,500	65,500	n.a.
Parents of dependent undergraduate students			
In general	n.a.	n.a.	Not limited
July 1, 1994-June 30, 2007[e]			
Dependent undergraduate students			
In general	23,000	23,000	n.a.
Independent undergraduate students			
In general	23,000	46,000	n.a.
Graduate and professional students			
In general	65,500	138,500	n.a.
Health Professions	65,500	189,125	n.a.
Parents of dependent undergraduate students			
In general	n.a.	n.a.	Not limited
July 1, 2007-June 30, 2008[f]			
Dependent undergraduate students			
In general	23,000	23,000	n.a.
Independent undergraduate students			
In general	23,000	46,000	n.a.
Graduate and professional students			

Borrower Type and Class Level or Program	Subsidized Stafford Loans[a] ($)	Total Subsidized & Unsubsidized Stafford Loans[a] ($)	PLUS Loans ($)
In general	65,000	138,500	Not limited
Health professions	65,000	189,125	Not limited
Parents of dependent undergraduate students			
In general	n.a.	n.a.	Not limited
July 1, 2008-present			
Dependent undergraduate students			
In general	23,000	31,000	n.a.
Independent undergraduate students			
In general	23,000	57,500	n.a.
Graduate and professional students			
In general	65,500[g]	138,500	Not limited
Health professions	65,500[g]	224,000	Not limited
Parents of dependent undergraduate students			
In general	n.a.	n.a.	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).

Notes: "n.a." means not applicable

a. Subsidized Stafford Loans were referred to as Guaranteed Student Loans until July 1, 1988. Prior to November 1, 1978, interest subsidies on Guaranteed Student Loans were available only borrowers whose family income was below specified income ceilings. Effective November 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.

b. Undergraduate students first became categorized as either dependent or independent students effective October 1, 1980.

c. From the period from January 1, 1981, to December 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 January 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 December 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 April 14, 2008, aggregate loan limits of $224,000 were established for borrowers enrolled in certain health professions programs.

g. The aggregate loan limit for Subsidized Stafford Loans to graduate and professional students applies to loans borrowed for programs of instruction beginning before July 1, 2012.

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

	Fixed Interest Rate or Variable Interest Rate Formula in Effect[a]	
Disbursement Period	**Subsidized Stafford Loans**	**Unsubsidized Stafford Loans[b]**
November 8, 1965-August 2, 1968		
In general	6% fixed rate[c]	n.a.
August 3, 1968-December 31, 1980		
In general	7% fixed rate[c]	n.a.
January 1, 1981-June 30, 1988		
In general	9% or 8% fixed rate[d]	n.a.
July 1, 1988-September 30, 1992		
First 48 months	8% fixed rate	8% fixed rate
Remaining payment period	10% fixed rate	10% fixed rate
October 1, 1992-June 30, 1994		
In general	91-day T-bill + 3.1% (capped at 9%) variable rate	91-day T-bill + 3.1% (capped at 9%) variable rate
July 1, 1994-June 30, 1995		
In general	91-day T-bill + 3.1% (capped at 8.25%) variable rate	91-day T-bill + 3.1% (capped at 8.25%) variable rate
July 1, 1995-June 30, 1998		
In-school, grace, and deferment periods	91-day T-bill + 2.5% (capped at 8.25%) variable rate	91-day T-bill + 2.5% (capped at 8.25%) variable rate
For repayment periods	91-day T-bill + 3.1% (capped at 8.25%) variable rate	91-day T-bill + 3.1% (capped at 8.25%) variable rate
July 1, 1998-June 30, 2006		
In-school, grace, and deferment periods	91-day T-bill + 1.7% (capped at 8.25%) variable rate	91-day T-bill + 1.7% (capped at 8.25%) variable rate
For repayment periods	91-day T-bill + 2.3% (capped at 8.25%) variable rate	91-day T-bill + 2.3% (capped at 8.25%) variable rate
July 1, 2006-June 30, 2008		
In general	6.8% fixed rate	6.8% fixed rate
July 1, 2008-June 30, 2009		
Undergraduate students	6.0% fixed rate	6.8% fixed rate
Graduate and professional students	6.8% fixed rate	6.8% fixed rate

Disbursement Period	Fixed Interest Rate or Variable Interest Rate Formula in Effect[a]	
	Subsidized Stafford Loans	Unsubsidized Stafford Loans[b]
July 1, 2009-June 30, 2010		
Undergraduate students	5.6% fixed rate	6.8% fixed rate
Graduate and professional students	6.8% fixed rate	6.8% fixed rate
July 1, 2010-June 30, 2011[e]		
Undergraduate students	4.5% fixed rate	6.8% fixed rate
Graduate and professional students	6.8% fixed rate	6.8% fixed rate
July 1, 2011-June 30, 2012[e]		
Undergraduate students	3.4% fixed rate	6.8% fixed rate
Graduate and professional students	6.8% fixed rate	6.8% fixed rate
July 1, 2012-June 30, 2013[e]		
Undergraduate students	3.4% fixed rate	6.8% fixed rate
Graduate and professional students	n.a.	6.8% fixed rate
On or after July 1, 2013[e]		
Undergraduate students	10-yr T-note + 2.05% (capped at 8.25%) fixed rate	10-yr T-note + 2.05% (capped at 8.25%) fixed rate
Graduate and professional students	n.a.	10-yr T-note + 3.6% (capped at 9.5%) 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 October 1, 1992.

c. For loans made prior to December 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 January 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.)

e. Effective July 1, 2010, Stafford Loans are only available through the DL program.

Table B-5. Stafford Loan Interest Rates in Effect, by Borrower Cohort: 1992-1993 to 2014-2015

Borrower Cohort and Loan Type	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	2013-2014	2014-2015
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	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	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	3.28	3.27	3.16	3.19	3.15	3.13
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	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	3.28	3.27	3.16	3.19	3.15	3.13
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	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	3.28	3.27	3.16	3.19	3.15	3.13
July 1, 1988-Sep. 30, 1992																							
Converted 8/10% loans																							
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	8.00	8.00
49th month & after[b]	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	3.43	3.42	3.31	3.34	3.30	3.28
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	3.28	3.27	3.16	3.19	3.15	3.13
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	3.28	3.27	3.16	3.19	3.15	3.13
Oct. 1, 1992-June 30, 1994																							
91-day T-bill + 3.1%	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	3.28	3.27	3.16	3.19	3.15	3.13

Borrower Cohort and Loan Type	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	2013-2014	2014-2015
(capped at 9%)																							
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	3.28	3.27	3.16	3.19	3.15	3.13
July 1, 1995-June 30, 1998																							
In-school, grace, and deferment periods																							
91-day T-bill + 2.5% (capped at 8.25%)	—	—	—	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	2.68	2.67	2.56	2.59	2.55	2.53
Repayment periods																							
91-day T-bill + 3.1% (capped at 8.25%)	—	—	—	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	3.28	3.27	3.16	3.19	3.15	3.13
July 1, 1998-June 30, 2006																							
In-school, grace, and deferment periods																							
91-day T-bill + 1.7% (capped at 8.25%)	—	—	—	—	—	—	6.86	6.32	7.59	5.39	3.46	2.82	2.77	4.70	6.54	6.62	3.61	1.88	1.87	1.76	1.79	1.75	1.73
Repayment periods																							
91-day T-bill + 2.3% (capped at 8.25%)	—	—	—	—	—	—	7.46	6.92	8.19	5.99	4.06	3.42	3.37	5.30	7.14	7.22	4.21	2.48	2.47	2.36	2.39	2.35	2.33
July 1, 2006-June 30, 2008																							
All Stafford Loans																							
6.8% loans	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80
July 1, 2008-June 30, 2009																							
Subsidized Stafford Loans to Undergraduate Students																							
6.0% loans	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.00	6.00	6.00	6.00	6.00	6.00	6.00
All other Stafford Loans																							

Borrower Cohort and Loan Type	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	2013-2014	2014-2015
6.8% loans	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.80	6.80	6.80	6.80	6.80	6.80	6.80
July 1, 2009-June 30, 2010																							
Subsidized Stafford Loans to Undergraduate Students																							
5.6% loans	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5.60	5.60	5.60	5.60	5.60	5.60
All other Stafford Loans																							
6.8% loans	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.80	6.80	6.80	6.80	6.80	6.80
July 1, 2010-June 30, 2011[c]																							
Subsidized Stafford Loans to Undergraduate Students																							
4.5% loans	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	4.50	4.50	4.50	4.50	4.50
All other Stafford Loans																							
6.8% loans	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.80	6.80	6.80	6.80	6.80
July 1, 2011-June 30, 2013[c]																							
Subsidized Stafford Loans to Undergraduate Students																							
3.4% loans	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	3.40	3.40	3.40	3.40
All other Stafford Loans																							
6.8% loans	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.80	6.80	6.80	6.80
July 1, 2013-June 30, 2014[c]																							
Stafford Loans to Undergraduate Students																							
10-yr T-note + 2.05% (capped at 8.25%)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	3.86	3.86
Unsubsidized Stafford Loans to Graduate and Professional Students																							
10-yr T-note + 3.60% (capped at 9.50%)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5.41	5.41

Borrower Cohort and Loan Type	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	2013-2014	2014-2015
July 1, 2014-June 30, 2015[c]																							
Stafford Loans to Undergraduate Students																							
10-yr T-note + 2.05% (capped at 8.25%)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	4.66
Unsubsidized Stafford Loans to Graduate and Professional Students																							
10-yr T-note + 3.60% (capped at 9.50%)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.21

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."

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

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

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

c. Effective July 1, 2010, Stafford Loans are only available through the DL program.

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	
In general	9% fixed rate
October 1, 1981-October 31, 1982	
In general	14% fixed rate
November 1, 1982-June 30, 1987	
In general	12% fixed rate
July 1, 1987-September 30, 1992	
In general	52-week T-bill + 3.25% (capped at 12%)[a] variable rate
October 1, 1992-June 30, 1994	
In general	52-week T-bill + 3.1% (capped at 10%)[a] variable rate
July 1, 1994-June 30, 1998	
In general	52-week T-bill + 3.1% (capped at 9%)[a] variable rate
July 1, 1998-June 30, 2006	
In general	91-day T-bill + 3.1% (capped at 9%) variable rate
July 1, 2006-June 30, 2013	
FFEL program loans	
Loans disbursed through June 30, 2010	8.5% fixed rate
DL program loans	7.9% fixed rate
On or after July 1, 2013	
In general	10-yr T-note + 4.6% (capped at 10.5%) fixed rate

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, 2001, became necessary because the Department of the Treasury stopped issuing 52-week Treasury bills.

Table B-7. PLUS Loan Interest Rates in Effect, by Borrower Cohort: 1992-1993 to 2014-2015

Borrower Cohort and Loan Type	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	2013-2014	2014-2015
Jan. 1, 1981-Sep. 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	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	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	12.00	12.00
July 1, 1987-Sep. 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	3.73	3.54	3.42	3.44	3.38	3.35
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	3.58	3.39	3.27	3.29	3.23	3.20
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	3.58	3.39	3.27	3.29	3.23	3.20
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	3.28	3.27	3.16	3.19	3.15	3.13
July 1, 2006-June 30, 2013																							
FFEL program: 8.5%[a]	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50
DL program: 7.9%	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90
July 1, 2013-June 30-2014																							
10-yr T-note + 4.6% (capped at 10.5%)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.41	6.41

Borrower Cohort and Loan Type	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**	**2013-2014**	**2014-2015**
July 1, 2014-June 30-2015																							
10-yr T-note + 4.6% (capped at 10.5%)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7.21	7.21

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. FFEL program PLUS Loans disbursed through June 30, 2010.

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 (%)
Nov. 8, 1965-Aug. 13, 1975				
Origination Fee (%)	0.0	n.a.	n.a.	n.a.
Default Fee (%)[a]	Up to 0.5% per year of unpaid principal balance	n.a.	n.a.	n.a.
Aug. 14, 1975-Aug. 23, 1981				
Origination Fee (%)	0.0	n.a.	n.a.	n.a.
Default Fee (%)[a]	Up to 1% per year until loan enters repayment	n.a.	n.a.	n.a.
Aug. 23, 1981-June 30, 1987				
Origination Fee (%)	5.0[b]	n.a.	n.a.	n.a.
Default Fee (%)[a]	Up to 1% per year until loan enters repayment	n.a.	n.a.	n.a.
July 1, 1987-Sep. 30, 1992				
Origination Fee (%)	5.0[b]	5.0	n.a.	n.a.
Default Fee (%)[a]	3.0	3.0	n.a.	n.a.
Oct. 1, 1992-June 30, 1994				
Origination Fee (%)				
Sub Stafford	5.0	n.a.	n.a.	n.a.
Unsub. Stafford	6.5[c]	n.a.	n.a.	n.a.
PLUS	n.a.	5.0	n.a.	n.a.
Default Fee (%)[a]				
Sub Stafford	3.0	n.a.	n.a.	n.a.
Unsub. Stafford	0.0[b]	n.a.	n.a.	n.a.
PLUS	n.a.	3.0	n.a.	n.a.
July 1, 1994-June 30, 2006				
Origination Fee (%)	3.0	3.0	4.0	4.0
Default Fee (%)[a]	1.0	1.0	n.a.	n.a.
July 1, 2006-June 30, 2007				
Origination Fee (%)	2.0	3.0	3.0	4.0
Default Fee (%)	1.0	1.0	n.a.	n.a.

Disbursement Period	FFEL Program Loans		DL Program Loans	
	Stafford Loans (%)	PLUS Loans (%)	Stafford Loans (%)	PLUS Loans (%)
July 1, 2007-June 30, 2008				
Origination Fee (%)	1.5	3.0	2.5	4.0
Default Fee (%)	1.0	1.0	n.a.	n.a.
July 1, 2008-June 30, 2009				
Origination Fee (%)	1.0	3.0	2.0	4.0
Default Fee (%)	1.0	1.0	n.a.	n.a.
July 1, 2009-June 30, 2010				
Origination Fee (%)	0.5	3.0	1.5	4.0
Default Fee (%)	1.0	1.0	n.a.	n.a.
July 1, 2010-June 30, 2013				
Origination Fee (%)	n.a.	n.a.	1.0	4.0
July 1, 2013-November 30, 2013				
Origination Fee (%)[d]	n.a.	n.a.	1.051	4.204
December 1, 2013-September 30, 2014				
Origination Fee (%)[d]	n.a.	n.a.	1.072	4.288
October 1, 2014-September 30, 2015				
Origination Fee (%)[d]	n.a.	n.a.	1.073	4.292

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).

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

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 March 1, 1986, and September 30, 1986, and again between October 1, 1989, and December 31, 1989.

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

d. Origination fee increased due to a sequestration order being in effect.

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

Disbursement Period and Loan Program	Consolidation Loan Interest Rate Formula in Effect
October 17, 1986-June 30, 1994	
FFEL program	Fixed rate: the greater of the weighted average of interest rates on the loans consolidated, rounded to the nearest whole percent, or 9%
DL program	n.a.
July 1, 1994-June 30, 1995	
FFEL program	Fixed rate: the weighted average of the interest rates on the loans consolidated, rounded upward to the nearest whole percent
DL program	
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	
FFEL program	Fixed rate: the weighted average of the interest rates on the loans consolidated, rounded upward to the nearest whole percent
DL program	
Stafford Consolidation Loans	Variable rate:
In-school, grace, and deferment periods	91-day T-bill + 2.5% (capped at 8.25%)
Repayment periods	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	
FFEL program	Variable rate: 91-day T-bill + 3.1% (capped at 8.25%)[b]
DL program	
Stafford Consolidation Loans	Variable rate:
In-school, grace, and deferment periods	91-day T-bill + 2.5% (capped at 8.25%)
Repayment periods	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	
FFEL program	Variable rate: 91-day T-bill + 3.1% (capped at 8.25%)[b]
DL program	

Disbursement Period and Loan Program	Consolidation Loan Interest Rate Formula in Effect
Stafford Consolidation Loans	Variable rate:
In-school, grace, and deferment periods	91-day T-bill + 1.7% (capped at 8.25%)
Repayment periods	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]
October 1, 1998-June 30, 2013	
FFEL program	
Loans disbursed through 6/30/2010	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]
DL program	
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%)
On or after July 1, 2013	
Applications received on or after 7/1/2013	Fixed rate: the weighted average of the interest rates on the loans consolidated, rounded to the nearest higher one-eighth of 1% (no cap)

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

Notes: "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.

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