



The Higher Education Reconciliation Act (HERA):

- Makes several significant changes to the Higher Education Act
- Reauthorizes the FFELP and Direct Loan Program
- Became Public Law 109-171 on February 8, 2006

Dear Colleague Letter GEN-06-02 (March 2006)

- Provides ED guidance on the loan-related provisions of the HERA

Dear Colleague Letter GEN-06-05 (April 2006)

- Provides ED guidance on the student and institutional eligibility, and student assistance general provisions of the HERA

Dear Colleague Letter FP-06-05 (April 2006)

- Announces addenda and revised Plain Language Disclosures for the Stafford, PLUS, and Consolidation Loan Programs

Grad PLUS

- Permits graduate and professional students to borrow under PLUS Loan Program
- PLUS terms and conditions remain the same, including:
 - Qualified borrower must not have adverse credit history
 - Maximum loan amount is COA minus EFA
 - Interest rate is same as for parent borrowers
 - Repayment begins upon final disbursement
- GEN-06-02 adds two requirements:
 - Student must complete FAFSA (because)
 - Student's eligibility for Stafford subsidized and unsubsidized must be determined, but the student is not required to borrow a Stafford loan before applying for PLUS
- FP-06-05 adds that a Grad PLUS borrower with adverse credit history may still obtain a PLUS loan with a creditworthy endorser
- Effective for PLUS loans certified on or after July 1, 2006

Stafford interest rates

- Stafford loan interest rate for loans first disbursed before July 1, 2006 will continue to be variable.
- Stafford loan interest rate for loans first disbursed on or after July 1, 2006 is fixed at 6.8%
- Result — Some Stafford borrowers will have both variable and fixed rate loans

PLUS interest rates

- FFELP PLUS loan interest rate for loans first disbursed before July 1, 2006 will continue to be variable
- FFELP PLUS loan interest rate for loans first disbursed on or after July 1, 2006 is fixed at 8.5%
- Direct PLUS loan interest rate for loans first disbursed on or after July 1, 2006 is fixed at 7.9%
- Result — Some PLUS borrowers will have both variable and fixed rate loans

Common forms

- FP-06-05 released the following approved forms for use under the FFELP:
 - Addenda for Stafford and PLUS MPN for new borrowers
 - Revised Plain Language Disclosures (PLDs) for Stafford and PLUS borrowers obtaining new loans under an existing MPN
 - Addendum for Consolidation loan application/prom note
- Addenda and PLDs must be used with current Stafford MPN, PLUS MPN, and Consolidation loan application/prom note until revised forms are developed and approved for use
- The applicable addendum should be distributed by the same entity that is distributing the promissory note to the borrower
- The PLD should be provided by the lender for borrowers:
 - Obtaining subsequent loans under an existing MPN
 - Who signed an MPN for the first time before the addendum was available
- Forms are available for download at http://www.tgslc.org/forms/frms_addenda.cfm

Stafford loan origination fee reduction

- Reduces origination fee for FFELP Stafford loans to zero over next several years
- Effective for loans first disbursed:
 - On or after July 1, 2006 through June 30, 2007 = 2.0%
 - On or after July 1, 2007 through June 30, 2008 = 1.5%
 - On or after July 1, 2008 through June 30, 2009 = 1.0%
 - On or after July 1, 2009 through June 30, 2010 = 0.5%
 - On or after July 1, 2010 = 0%

Federal default fee for FFELP Stafford and PLUS loans

- The HERA eliminates the guarantee fee — but substitutes a 1% federal default fee
- Applies to all guarantors, including those with VFAs
- Requires guarantor to pay 1% fee into its federal fund; fee may be:
 - Deducted from borrower's proceeds
 - Paid from "other non-federal sources"
- Effective for loans guaranteed on or after July 1, 2006
- TG will subsidize the federal default fee on behalf of Stafford and PLUS borrowers for the 2006-2007 award year (loans guaranteed through June 30, 2007)

Teacher loan forgiveness program

- Extends increased teacher loan forgiveness benefits indefinitely
- Allows nonprofit private school teacher to qualify under this program if teacher passes grade level and subject matter competency tests
 - Effective July 1, 2006

Stafford loan limits — undergraduate

- Increases base annual Stafford loan limits
 - From \$2,625 to \$3,500 (first-year)
 - From \$3,500 to \$4,500 (second-year)
 - Third-and fourth-year annual limits unchanged
 - Aggregate limits unchanged
- Effective for any Stafford loan certified on or after July 1, 2007
- Increases additional unsubsidized annual limit for:
 - Coursework needed for entry into graduate or professional degree program
 - Teacher certification/professional credential program
 - From \$5,000 to \$7,000
- Effective for any Stafford loan certified on or after July 1, 2007

Stafford loan limits — graduate and professional

- Increases additional unsubsidized annual loan limits
 - From \$10,000 to \$12,000
- Effective for any Stafford loan certified on or after July 1, 2007

Change to definition of independent student

- Now includes students on active duty military for other than training purposes
- Effective July 1, 2006

Drug question on FAFSA

- Amends HEA to clarify that student will be ineligible for Title IV aid only if drug conviction occurs during period of enrollment during which student receives Title IV aid
- Effective July 1, 2006

Fraud

- Adds eligibility condition stating that student or borrower is ineligible for Title IV aid if student or borrower has...
 - Been convicted of,
 - Pleaded *nolo contendere* (no contest) to, or
 - Pleaded guilty to...
- Fraudulent receipt of Title IV funds
- Student or borrower regains eligibility when he/she has completed repayment to ED or holder of the loan, as applicable
- Effective July 1, 2006

HERA resources

ED: Information for Financial Aid Professionals

www.ifap.ed.gov/IFAPWebApp/currentHERAPag.jsp?p1=c

NCHELP: National Council of Higher Education Loan Programs

www.nchelp.org/elibrary/index.cfm?parent=1791

TG: TG Online, The Higher Education Reconciliation Act of 2005 (HERA) page

www.tgslc.org/reauth/hera.cfm

Information provided on this resource is current as of August 2006.



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