



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/FP-06-01 (March 2006)

- Provides ED guidance on the loan-related 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

Consolidation loans

- Retains fixed interest rate of the weighted average of interest rates on loans consolidated
 - Retains cap at 8.25%
- Retains single-holder rule*
- Eliminates spousal consolidation
- Eliminates reconsolidation in both FFELP and Direct Loan Program, except that:
 - A FFELP Consolidation borrower whose delinquent loan has been submitted to the guarantor for default aversion assistance may seek a Direct Consolidation to obtain an income-contingent repayment plan
- Eliminates “in-school” consolidation
 - Eliminates the ability of a borrower to request to enter repayment before end of grace period
 - Effective for borrower requests received on or after July 1, 2006
 - Requires Consolidation loan borrower to be in grace or repayment status in order to consolidate
 - Eliminates in-school consolidation in Direct Loan Program
 - Effective for Consolidation loan applications received on or after July 1, 2006

Federal insurance

- Reduces federal insurance for lenders from 98% to 97%
- Reduces federal insurance for exceptional performers from 100% to 99%
- Provides 100% federal insurance on exempt claims

Military deferment

- Adds new military deferment for FFELP, Direct, and Perkins loan borrowers
- Effective date for loans for which the first disbursement is made on or after July 1, 2001
- Consolidation loans also qualify for this deferment, but:
 - All of the borrower’s Title IV loans being consolidated must have been disbursed on or after July 1, 2001
- Limits deferment to 3 years
- Borrower must be:
 - Serving on active duty during a war or other military operation, or national emergency; or
 - Performing qualifying National Guard duty during a war or other military operation, or national emergency

Forbearance

- Eliminates the requirement that forbearance agreement be in writing
- To document the forbearance, the lender must:
 - Record the terms in the borrower’s file
- Effective for agreements entered into or renegotiated with a borrower on or after July 1, 2006

False certification loan discharge

- Adds new discharge due to false certification as a result of a crime of identity theft
 - Borrower must provide court verdict or judgment to holder of the loan.
 - Borrower must not have knowingly benefited from the loan
 - Lender may provide administrative forbearance
 - Guarantor may suspend collection activities

Disbursement through escrow

- Lowers maximum number of days a lender can fund disbursements through an escrow agent from 21 to 10 days
- Limits interest received on loans disbursed through an escrow agent to no more than 3 days prior to first day of the period of enrollment

***Emergency spending bill HR 4939 repeals the single holder rule. Effective for Consolidation loan applications received on or after June 15, 2006.**

Special allowance

- Eliminates 9.5% floor loans, effective February 8, 2006
- Eliminates “recycling” for loans made or purchased after the date of enactment of the HERA
 - Provides exemption for governmental or nonprofit entities until December 31, 2010

Excess interest

- Requires repayment of “excess interest” for loans first disbursed on or after April 1, 2006
- Excess interest calculated each quarter
- Calculation:
(Applicable interest rate - “special allowance support level”) x average daily principal balance of the loan during the quarter / 4 = excess interest amount to be rebated to ED

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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