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President Signs Reauthorization of the Higher Education Act

"The Higher Education Amendments of 1998" (Amendments), which reauthorizes and amends the Higher Education Act of 1965, was signed into law by President Clinton on October 7, 1998. The general effective date of the Amendments is October 1, 1998, although this may be changed by expressed provisions to the contrary. Most of the provisions in the law are authorized through 2003, with some exceptions in various programs.

The Amendments provide several important changes to the general scope and operation of the student financial aid (SFA) programs and to the Federal Family Education Loan Program (FFELP) specifically. Whereas schools and lenders will not see sweeping changes to the FFELP as a result of this Reauthorization, a number of important elements have changed and are highlighted in this article. Texas Guaranteed Student Loan Corporation (TG) will be addressing specific issues and their impact over the coming months. This article will not attempt to address every issue in the Amendments. Instead, it is intended to provide TG customers with the general scope of the new law and of issues to watch in the future.

General Trends and Changes

The 1998 Amendments make a number of changes designed to improve efficiency in the overall performance and goals of the SFA programs and to allow the Higher Education Act (HEA) to address several contemporary educational and social issues.

In order to streamline the management of the SFA programs, the law establishes a new Performance-Based Organization (PBO) in the Department of Education (ED) designed to oversee all SFA operational, delivery, and financial systems. The PBO is intended to function independently of ED's regular civil service and political

structure in order to give the PBO greater flexibility and responsiveness. While ED will remain responsible for policy development in the SFA programs, the PBO will manage the technology and financial systems that support the SFA programs.

As for policy development, the Amendments give more lead-time for SFA participants to implement regulatory changes. Provisions of the Master Calendar are revised and require ED to publish regulatory changes by November 1 prior to the start of an award year for which those regulations are to take effect. The Amendments also require ED to notify SFA participants of minimal hardware and software requirements by December 1 prior to any award year for which the requirements are to take effect.

Overall, the Amendments provide increases in the authorized amount of federal aid available to students for higher education. Annual Pell Grant limits rise to \$4,500 in 1999-2000 and eventually to \$5,800 by the 2003-2004 academic year. (However, the currently pending Appropriations bill only funds \$3,100 in 1999-2000.) The law extends authority and funding for all the current Campus-Based Programs and a number of new programs for graduate students. It also continues to fund the Robert C. Byrd Honors Scholarship Program and the Jacob K. Javits Fellowship and funds several early awareness and intervention programs to promote college access for low-income students. These include the TRIO Programs and the "Gaining Early Awareness and Readiness for Undergraduate Programs" (GEAR UP).

In addition to extending, and in some cases expanding, direct financial assistance to students and institutions, the law builds in an awareness of the costs of higher education. The Amendments will require the

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federal government, in conjunction with data supplied by schools, to provide detailed information about the cost of higher education to the public. The Amendments require the National Center for Education Statistics to collect data from various sources and make the information available to the public and to Congress starting in 2002.

Postsecondary institutions will be required to provide certain data on their costs beginning in the 2000-2001 academic year.

A new initiative, strongly supported by the Administration, will set up a number of grant programs designed to improve teacher quality and to promote accountability in teacher preparation programs in institutions of higher education. In addition, there is a new loan forgiveness program for FFELP and Direct loans for a person who teaches for five years in a low-income school equivalent to the schools that qualify for Federal Perkins loan cancellation benefits.

Another new initiative entitled "Collegiate Initiative to Reduce Binge Drinking and Illegal Alcohol Consumption" strongly encourages institutions of higher education to develop policies that reduce alcohol abuse on college campuses as well as to work with local communities to curtail access to alcohol.

A very important development, especially for Texas, is the establishment of new competitive grants for Hispanic-Serving Institutions (HSIs). Postsecondary institutions with an enrollment of at least 25 percent Hispanic students, of whom at least 50 percent are from low-income families, are eligible. The funds for HSIs can be used in basically the same way as funds currently allocated for Historically Black Colleges and Universities and Tribal colleges.

New Trends in Technology

Every Reauthorization attempts, in some regard, to make the HEA relevant to changes in postsecondary education that have developed since the last Reauthorization. The 1998 Amendments are no exception and, as such, take special steps to acknowledge trends in technological advancement in the SFA programs.

For example, the process of applying for an in-school deferment for FFELP loans is streamlined to

allow a lender to defer a student's loan based on information received through the student status confirmation process. The Amendments furthermore eliminate the requirement that mandatory forbearance requests be submitted in writing.

The Amendments establish authority for the Master Promissory Note (MPN) and require its implementation no later than periods of enrollment beginning on or after July 1, 2000. ED introduced the MPN in a September 1998 *Dear Colleague Letter* (ANN-98-1) and expects to make the new promissory note available for the 1999-2000 academic year. More about the MPN will be published in *Shoptalk 87*, due for release in October 1998.

A change that should be welcomed by students and schools alike is a provision that allows adding the cost or rental of computer equipment as part of the personal expenses in a student's cost of attendance.

The Amendments set up a demonstration program for distance education programs, including the Western Governor's University.

Trends in Regulatory Relief

The Amendments establish several initiatives to improve the quality of regulations and to allow SFA participants to operate outside the confines of established regulations, under certain conditions.

The law requires ED, on an ongoing basis, to review and streamline the SFA regulations and to evaluate ways to reduce the regulatory burden on schools that receive small allocations of SFA funds.

Other schools with a demonstrated record of performance may be allowed to operate their SFA programs with alternative methods of verification, reporting, processing and delivery of aid, and entrance and exit counseling. ED will use the experience of the schools in the Quality Assurance Programs in recommending possible improvements to the current SFA programs.

Specifically for the FFELP, the Amendments will permit guarantors to enter into Voluntary Flexible Agreements (VFAs) with ED. VFAs allow for ED to waive a limited number of rules in law and regulations that govern guarantors. VFAs do not change the eligibility requirements for FFELP loans or the requirements related to paying default claims

to lenders. VFAs will only be available on a pilot basis during fiscal years 1999, 2000, and 2001, allowing a maximum of six guarantors to participate. Any guarantor may participate beginning in fiscal year 2002.

FFELP Loan Changes

Most of the changes to the FFELP were anticipated far in advance of passage of the bill. FFELP loan provisions are not overhauled by this Reauthorization, though the financial structure under which guarantors operate is greatly changed. Guarantors will have more autonomy over their own funds and operations than was allowable under the prior version of the HEA.

One very welcome change, both from a practical and symbolic perspective, is the removal of language passed during the Student Loan Reform Act of 1993 that refers to the phase-out of the FFELP and the transition to the Federal Direct Loan Program. The 1998 Amendments strike all such verbiage.

As expected, the Amendments set Stafford and PLUS loan rates in both the FFELP and Federal Direct Loan Programs to match those provided under the temporary provisions of the Intermodal Surface Transportation Efficiency Act of 1997, which were in effect from July 1, 1998, through September 30, 1998, in order to allow Congress time to deliberate Reauthorization.

Consolidation loan rates, however, are entirely new. In the FFELP, consolidation loan rates are set at the weighted average of all loans being consolidated, rounded up to the nearest one-eighth of a percent and capped at 8.25 percent. Direct loan consolidation rates are the same as FFELP rates beginning February 1, 1999. FFELP lenders are not precluded from offering a lower Consolidation loan interest rate if they choose. The 1.05 percent interest payment rebate fee for FFELP Consolidation loans is reduced to 0.62 percent until February 1, 1999. Interest rate provisions are discussed in more detail on page 7.

Two new features will strengthen the attraction of Consolidation loans for students. First, interest subsidy will be available on all underlying loans that were subsidized prior to consolidation. This

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makes permanent a temporary provision included in the Emergency Student Loan Consolidation Act of 1997 (see *Shoptalk* 77). Second, borrowers will now be permitted more flexible rules on obtaining multiple Consolidation loans and adding loans to an existing Consolidation.

Additional FFELP changes for schools and lenders are discussed in the articles on this page and page 5.

The Guarantor Financial Model

The new financial model for guarantors provides for greater control over operations, while adding certain performance-based incentives for such activities as default prevention.

The Amendments change the financial structure under which guaranty agencies operate. Previously, all guarantor FFELP activities were administered through a single “reserve” fund. The 1998 Amendments split guarantor funds into a “Federal Reserve Fund” for the payment of claims and certain default aversion fees and a guarantor-owned “Operating Fund” for payment of other expenses.

TG has implemented the revised structure for reserve funds and is modifying its Lender Participation Agreements to reflect these changes as well as other amendments.

Guarantor reinsurance on loans made on or after October 1, 1998, drops from 98 percent to 95

percent (note: lender insurance does not change). The guarantor share in the collection of defaulted loans, previously 27 percent, changes to 24 percent until September 30, 2003, and 23 percent thereafter.

The Amendments require \$250 million return of guarantor reserves in 2002, 2006, and 2007. This is in addition to the \$1 billion recall of reserves from fiscal year 1999 through 2002, required by the 1997 Budget Reconciliation Act.

In order to strengthen guarantor participation in default prevention, the law allows guarantors to earn one percent of any loan that is brought current by the guarantor on or before the 300th day after the loan becomes 60 days delinquent. The original House version of Reauthorization, H.R. 6 had set the number of days at 210. The final outcome reflects a change in the definition of default, which is changed from 180 days to 270 days past due for loans repayable monthly and from 240 days to 330 days past due for loans repayable less frequently. The Amendments also change a number of other fees that guarantors are entitled to receive from ED.

The guarantor financing model was discussed in detail in *Shoptalk* 83 in an article entitled “How Reauthorization Would Affect TG’s Business and Financial Model.” The model discussed in that article essentially mirrors the final version passed in the 1998 Amendments. However, the final bill

does clarify that the guarantor has sole control over the administration, use, and investment of the operating fund.

Finally, the Amendments allow guarantors to issue a blanket certificate of guaranty. This provision will be phased in. ED may select (from those guarantors who wish to participate) a limited number of guarantors to offer blanket certificates in fiscal years 1999 and 2000. In 2001, blanket certificate will be open to any guarantor.

It is important to keep in mind that this legislation merely “reauthorizes” the HEA. The Congress, through the annual appropriations process, must fund the programs that are reauthorized. Also, it is expected that the 106th Congress will consider a technical amendments bill to address any concerns the student financial aid community may have with this legislation.

Questions

As mentioned, *Shoptalk* will continue to cover changes from “The Higher Education Amendments of 1998” over the coming months. In the interim, questions may be addressed to TG Customer Support at (800) 252-9743, ext. 4444, or by e-mail to customer.services@tgscl.org. ★

Highlights of School Changes in Reauthorization

Relative to past Reauthorizations of the Higher Education Act (HEA), The Higher Education Amendments of 1998 (Amendments) do not present comprehensive changes to school participation in the Federal Family Education Loan Program (FFELP).

The Amendments do accommodate current trends in technology and information sharing and make minor program changes to clarify long-standing issues or provide regulatory relief to schools in certain situations.

The following is a summary of highlights from the Amendments related to school administration of the FFELP. More details will be provided in future editions of *Shoptalk* as specific aspects are implemented either at Texas Guaranteed Student Loan Corporation (TG) or at the national level.

Loan Application Form

The Amendments require the Department of Education (ED) to implement the Master Promissory Note (MPN). The MPN must be used

for periods of enrollment beginning no later than July 1, 2000, but may be implemented earlier. The Free Application for Federal Student Aid can now be used as the loan application for FFELP loans.

General Changes

- Previously, schools had to report to the lender certain data elements related to a student’s new loan. For Stafford loans (subsidized and unsubsidized), schools are no longer required

See SCHOOL ISSUES on page 4.

to provide lenders with information regarding the student's estimated cost of attendance, estimated family contribution, and estimated financial aid. However, schools are required to determine and document this data. The school must certify the student's eligibility for the loan, the amount of the loan, and a disbursement schedule consistent with disbursement requirements. In anticipation of Reauthorization, these fields were eliminated from the draft MPN form that will eventually replace the current common application/promissory note.

- Trust territories are re-named Freely Associated States. New provisions also extend eligibility to such residents for PELL, FSEOG, and Federal Work-Study.
- States will be required to identify poor performing teacher preparation programs. Those programs losing state support will be prohibited from accepting or enrolling any student who receives aid under Title IV of the HEA in the school's teacher preparation program.
- The eligibility of students who are not high school graduates has been extended to include the eligibility of home-school graduates that meet state law for secondary school graduation.
- Students enrolled in a certificate program of study that is at least one year in length and offered via telecommunications are not considered enrolled in a correspondence course unless the school offers 50 percent or more of its total courses via telecommunications or correspondence.
- Limitations are amended regarding a student's eligibility for Title IV assistance if convicted of any offense under any federal or state law involving the possession or sale of a controlled substance. Guidelines are added regarding intervals for suspension, and new rehabilitation requirements provide a means of reinstating eligibility.
- Schools are required to collect data and provide to all current and prospective

students and employees statistics concerning certain types of campus crime. Special rules are included regarding the disclosure of crimes committed on a school's campus.

- Amendments allow for demonstration programs for distance education to be monitored by ED to determine whether regulations or statute should be altered to accommodate this process.

PLUS Eligibility

Schools will be required to verify the immigration status and social security numbers for parents borrowing PLUS loans, just as schools are required to do for student borrowers. The Free Application for Federal Student Aid will be updated to add the parent's name, social security number, and birth date. This will allow cross matching of data through the Central Processor.

Stafford Loan Limits

- The Amendments eliminate the current first-year proration calculation and base the maximum loan amount on the same ratio calculation used for all students, which is the ratio of the student's program length to the academic year.
- The loan limits for students pursuing remedial coursework necessary for enrollment in an undergraduate degree or certificate program is \$2,625 for subsidized Stafford loans and \$4,000 for unsubsidized Stafford loans.
- The loan limit for a student with a baccalaureate degree pursuing coursework necessary for enrollment in a graduate or professional degree or certificate program is \$5,500 for subsidized Stafford loans and \$5,000 for unsubsidized Stafford loans.
- The loan limit for a student with a baccalaureate degree pursuing coursework necessary to obtain a professional credential or certificate from a state for employment as an elementary or secondary school teacher is \$5,500 for subsidized Stafford loans and \$5,000 for unsubsidized Stafford loans.

Single Disbursement

Schools with a cohort default rate of less than 10 percent for the three most recent fiscal years for which data is available may disburse any loan in a single installment if the loan is made to cover one semester, trimester, quarter, or four months.

Delayed Disbursement

Schools with a cohort default rate of less than 10 percent for the three most recent fiscal years for which data is available need not delay disbursement of loan funds for first-year, first-time borrowers.

Refunds

The Title IV refund policy and calculation has been simplified and applies to all students (first time and continuing students alike) and all schools, in contrast to previous requirements that allowed for several alternative refund policies based either on state law or a school's accrediting agency.

In general, a school will determine the amount the student "earned" as a percentage of the payment period completed by the student before withdrawal. The school will apply the percentage "earned" to the amount of the student's award that was disbursed, or that should have been disbursed, and return the rest to the Title IV programs. After 60 percent of the payment period, the student is eligible for 100 percent of his or her Title IV aid. The new refund policy takes effect two years after the enactment of the Amendments.

In addition, a new provision was added that allows borrowers to have their FFELP loans discharged in the event that a school failed to pay a refund for which the student was eligible. The amount of discharge is limited to the amount of refund owed. As with closed school discharges and discharges of loans that were falsely certified by the school, the school will be responsible for repaying the amount of the loan that should have been refunded.

Default Aversion

Schools cannot be charged for the cost of reports on loans made to students that attended the school and for which the lender filed a request for preclaim assistance.

See SCHOOL ISSUES on page 5.

Discretionary Loan Forgiveness Programs

- The Amendments create and fund a loan forgiveness program for teachers. Up to \$5,000 of a teacher's student loans will be forgiven after five years of teaching for those choosing to teach in urban or rural school districts that serve large populations of low-income students.
- Subject to appropriation of funds, a new demonstration program was created for students who obtain a degree in early childhood education and obtain employment in a child care facility to have 70 percent of their FFELP or Direct Stafford loans repaid by ED. The provision applies to new borrowers after the date of enactment.

Cohort Default Rate

Several amendments address changes relating to the cohort default rate that affect schools:

- A new definition of mitigating circumstance is amended within the HEA.
- Exemption from cohort default rate termination is extended to July 1, 1999, for Historically Black Colleges and Universities and Tribally controlled community colleges, and further extensions may be granted for schools that comply with an approved default management plan and show improvement in their cohort default rates.

- Records used by the guarantor to determine whether to pay a claim on a defaulted loan must be accessible to schools.
- ED is authorized to appoint a qualified third-party consultant to provide administrative, fiscal, management, strategic planning, and technical assistance to "distressed" institutions exempt from the cohort default rate trigger.
- Schools are required to repay the interest, special allowance, reinsurance, and any related payments for loans made during the appeal process if the appeal is unsuccessful.
- An exemption has been added for cohort default rate termination if the school demonstrates a participation index equal to or less than .0375 for any of the three most recent fiscal years for which data is available.
- The definition of cohort default rate is amended to exclude loans that entered repayment and default, to the extent that ED is considering an appeal based on improper servicing.

Quality Assurance Program

ED is allowed to select schools for voluntary participation in the Quality Assurance Program, based on the school's demonstrated performance. Certain regulatory requirements may be waived for these selected schools.

Experimental Sites

The Regulatory Improvement and Streamlining Experiments section is changed to allow ED to continue experimental site schools already approved. However for schools that perform activities exempt from statutory requirements, those activities must cease by no later than June 30, 1999.

Master Calendar

Master calendar provisions are amended to state that ED shall notify schools by December 1 preceding the award year for which they are to take effect of minimal hardware and software requirements for program administration. ED will attempt to conduct training for financial aid officers prior to the start of each award year to ensure that they are informed of administrative requirements.

The master calendar is also amended to require ED to issue regulations by November 1 preceding the award year for which they are to take effect.

As mentioned above, TG will continue to monitor the effects of the Amendments on school FFELP participation and will provide guidance in *Shoptalk* over the coming months.

Questions

For questions about the Amendments or TG's implementation of changes that affect schools, contact TG Customer Support at (800) 252-9743, ext. 4444, or send e-mail to customer.services@tgslc.org ★

Highlights of Lender Changes in Reauthorization

The Higher Education Amendments of 1998 (the Amendments) make minor, but important, changes to provisions in the Federal Family Education Loan Program (FFELP) affecting lender operations. Some changes simply formalize existing practices and policies. Other changes accommodate changes in technology, information flow, and default prevention efforts.

As the student loan industry continues to evaluate the Amendments and works to understand fully the relevant business impact of different provisions, TG will continue to keep participating lenders up to date on implementation issues.

The following is a brief summary of changes included in the Amendments and will provide a benchmark of areas to follow in the coming months.

Required Disclosure

The information required to be disclosed to the borrower at or before the first disbursement of a Stafford or PLUS loan and at or before the start of the repayment period must be in simple and understandable terms by written or electronic

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LENDERS (Continued from page 5)

means. Each lender must provide to each borrower a telephone number, and may provide an electronic address, through which additional loan information can be obtained.

Repayment Plans

Student borrowers are now permitted to change their selection of a repayment plan annually. The Amendments create a new extended repayment option — not to exceed 25 years — for new borrowers on or after October 7, 1998, who accumulate outstanding Stafford loans totaling more than \$30,000. This option is in addition to the current options of standard, graduated, and income sensitive repayment.

Delay in Commencement of Repayment Period

This change excludes from the six-month grace period any period, not to exceed three years, during which a borrower who is a member of a reserve component of the Armed Forces of the United States, is called or ordered to active duty for a period of more than 30 days. This period of exclusion must include the period necessary to resume enrollment at the borrower's next available regular enrollment period.

Lender Assistance to Schools

A provision was added to the eligible lender section that states that a lender may provide assistance to schools comparable to the kinds of assistance provided to schools by ED under the Federal Direct Loan Program.

Deferments

- A provision is amended to strike the requirement in some promissory notes for the borrower to obtain a new loan in order to qualify for a deferment while enrolled half-time. Certain borrowers whose outstanding loans were made prior to July 1, 1993, are currently required to borrow a new loan in order to receive a half-time deferment.

- Lenders may determine in-school deferment eligibility for a student based on receipt of (1) a request for deferment from the borrower and documentation of the borrower's eligibility for the deferment; (2) a newly completed loan application that documents the borrower's eligibility for a deferment; or (3) student status information received by the lender through the student status confirmation process confirming that the borrower is enrolled on at least a half-time basis. The lender is required to notify the borrower of the granting of any deferment under (2) or (3) above and of the option to continue paying on the loan.
- A borrower receiving unemployment benefits is no longer required to file additional supporting documentation to receive unemployment deferment benefits.

Mandatory Forbearance

This change eliminates the requirement that mandatory forbearance requests *must* be written. The requirement for written agreement is retained.

Discretionary Forbearance

This change allows lenders to grant forbearance for a period not exceeding 60 days if the lender determines that such a suspension of collection activity is warranted following a borrower's request for deferment, forbearance, a change in repayment plan, or request to consolidate loans, in order to collect or process supporting documentation related to the request. During that time interest may *not* be capitalized.

Default Aversion Assistance

This change codifies that a lender cannot request preclaim assistance with a guaranty agency earlier than the 60th day of delinquency.

Definition of Default

Effective for loans for which the first day of delinquency occurs on or after October 7, 1998, the

definition of default increases from 180 days to 270 days in the case of a loan which is payable in monthly installments and from 240 days to 330 days in the case of a loan which is repayable in less frequent installments.

Delegation of Functions

This change stipulates that a lender that contracts with another entity to perform any of the lender's FFELP functions is responsible for complying with all statutory and regulatory requirements and must monitor the activities of the other entity to ensure compliance with such requirements.

Blanket Certificate of Insurance

The bill permits guaranty agencies to offer blanket insurance agreements to lenders and to provide for lenders covered by the blanket agreements to transmit electronically data on loans that the lenders agreed to make. Blanket certificate of insurance would pre-authorize lenders to make loans with the approval of the guaranty agency.

Compliance Audits

This change exempts any lender that originates or holds less than \$5 million in Title IV loans for any lender fiscal year from having to submit annual compliance audits to ED.

Small lenders have previously been exempted from this requirement through various short-term measures.

Questions

For questions about the Amendments or TG's implementation of changes that affect lenders, contact TG Customer Support at (800) 252-9743, ext. 4444, or send e-mail to customer.services@tgsic.org. ★

Interest Rate Changes from Reauthorization

One of the provisions of the recent Reauthorization of the Higher Education Act establishes the applicable interest rates for new student loans in both the Federal Family Education Loan Program (FFELP) and the Federal Direct Loan Program. The law makes permanent (until 2003) the temporary interest rate fixes for Federal Stafford and PLUS loans established in the recent Intermodal Surface Transportation Efficiency Act of 1997, which were effective July 1, 1998, through September 30, 1998.

The new low rates include substantial savings for students as well as a subsidy for lenders, making the rates acceptable to the entire student loan community. The lender subsidy, while lower than in the past, will preserve the solvency of the FFELP and help ensure that students will continue to have access to the most affordable student loans on the market.

Stafford Loan Interest Rate

For Stafford loan student borrowers, the rate for students will be the equivalent of the 91-day Treasury bill auctioned at the final auction held before June 1 plus 1.7 percent while the student is in school, grace, or deferment, or plus 2.3 percent while the student is in repayment. Both rates are capped at 8.25 percent. Lenders will receive a rate that is the equivalent of the 91-day Treasury bill plus 2.2 percent while the student is in school, or plus 2.8 percent while the borrower is in repayment.

PLUS Loan Interest Rate

For PLUS loan borrowers, the interest rate is set at the 91-day Treasury bill plus 3.1 percent, with a cap of 9 percent.

Since TG completed programming for the new Stafford and PLUS interest rates earlier this summer, customers will not have to provide students with addenda for these loans. The applicable interest rates

are stated on the Disclosure Statements provided by TG or printed from TG's systems.

Consolidation Loan Interest Rate

The new interest rate for Consolidation loans represents a compromise crafted by Congress to bring parity to FFELP and Direct loan rates. The interest rate under the Direct Loan Program will rise slightly on February 1, 1999, after a four-month window of lower rates.

For applications received by FFELP Consolidation lenders on or after October 1, 1998, and by the Direct loan servicer on or after February 1, 1999, the fixed interest rate is set at the weighted average of the interest rates on the loans being consolidated rounded up to the nearest one-eighth of one percent, capped at 8.25 percent. Between October 1, 1998, and February 1, 1999, Direct loan borrowers will

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Borrower Interest Rates on Federal Family Education Loan Program and Direct Program Loans Effective October 1, 1998

The interest rates listed in the tables below apply to student and parent loans first disbursed on or after October 1, 1998, and to Consolidation loans for which applications are received on or after October 1, 1998.

FFELP LOANS					
LOAN TYPE	DURING	BOND EQUIVALENT RATE	ADDITIONAL SUM	MAXIMUM RATE	EFFECTIVE RATE
Stafford (Subsidized and Unsubsidized)	In-school, grace, and deferment periods	5.16%	1.7%	8.25%	6.86%
	All other periods	5.16%	2.3%	8.25%	7.46%
PLUS	All periods	5.16%	3.1%	9.00%	8.26%
Consolidation (Applications received on or after 10/1/1998)	All periods	Weighted average of the interest rates on the loans consolidated, rounded up to the nearest one-eighth of one percent.		8.25%	Weighted average or maximum rate, whichever is lower.
DIRECT PROGRAM LOANS					
LOAN TYPE	DURING	BOND EQUIVALENT RATE	ADDITIONAL SUM	MAXIMUM RATE	EFFECTIVE RATE
Stafford (Subsidized and Unsubsidized)	In-school, grace, and deferment periods	5.16%	1.7%	8.25%	6.86%
	All other periods	5.16%	2.3%	8.25%	7.46%
PLUS	All periods	5.16%	3.1%	9.00%	8.26%
Consolidation (Applications received on or after 10/1/1998 but before 2/1/1999)	All periods	5.16%	2.3%	8.25%	7.46%
Consolidation (Applications received on or after 2/1/1999)	All periods	Weighted average of the interest rates on the loans consolidated, rounded up to the nearest one-eighth of one percent.		8.25%	Weighted average or maximum rate, whichever is lower.

Shoptalk is published by Texas Guaranteed Student Loan Corporation (TG). Unless specifically noted, the policies and procedures outlined in *Shoptalk* apply only to loans made under TG's guarantee and not to loans underwritten by other guarantors.

Questions about the articles in *Shoptalk* should be addressed to:

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receive a rate of the 91-day Treasury bill plus 2.3 percent, capped at 8.25 percent. Also during this period, Direct loan borrowers who are enrolled or accepted for enrollment may not obtain a Direct Consolidation loan unless the borrower certifies that he or she has no outstanding Title IV loans other than Direct loans.

During the period from October 1, 1998, to February 1, 1999, the lender fee on FFELP Consolidation loans, which is 1.05 percent of the principal balance plus accrued interest, is reduced to .62 percent. On February 1, 1999, the lender fee reverts back to 1.05 percent.

To ensure proper disclosure of the new FFELP interest rate and other changes to the Consolidation Loan Program, the National Council of Higher Education Loan Programs' (NCHERP) Consolidation Loan Task Force is preparing a revised Addendum to accompany the current Consolidation loan application forms. The revised Addendum is expected to be approved within the next few days and will be available on *TG Works Online*

(www.tgslc.org), in a future edition of *Shoptalk*, and through TG Customer Services.

Over the next few weeks, lenders will have to provide two different addenda for Consolidation loans — the Addendum covering the Emergency Student Loan Consolidation Act of 1997 and the new Addendum covering the Reauthorization of 1998. Lenders are responsible for providing the correct Addendum to borrowers. For *applications received before* October 1, 1998, the Emergency Act Addendum is to be used. For *applications received on or after* October 1, 1998, the Reauthorization Addendum is to be used.

Calculating Consolidation Loan Interest

Consolidation loan lenders should calculate the weighted average of the combined underlying loan interest rates and round up to the nearest one-eighth of one percent. Possible rates for applications received on or after October 1, 1998, through June 30, 2003, for Consolidation loans include all increments of one-eighth of one percent — that is

any rate ending in .000, .125, .250, .375, .500, .625, .750, or .875 — not to exceed 8.25 percent. There is no minimum rate set in statute.

Lenders must include the actual interest rate when reporting new Federal Consolidation loans to TG's Loan Guarantee Operations. When reporting Consolidation loans with an interest rate of 8.25 percent, lenders should specify whether the rate is variable or fixed because Consolidation loan applications received prior to October 1, 1998, carry the 8.25 percent variable interest rate. Lenders will need to add a field to accommodate this extra information in whatever format in which they are currently reporting to TG.

Questions

If you have questions about new student loan interest rates or the Addenda for Consolidation loans, contact Customer Support at (800) 252-9743, ext. 4444. If you have questions concerning Consolidation loan reporting, contact Rebeca Soto in Loan Guarantee Operations at (800) 446-5616. ★