Overview of Student Aid Changes in the Health Care and Education Reconciliation Act of 2010

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Elimination of FFELP

- All new federal education loans, including Stafford, PLUS and Consolidation loans, will be made through the Direct Loan program starting July 1, 2010
- All Title IV colleges and universities must switch to Direct Lending, without exception
  - Technical assistance is available through the US Department of Education
  - The National Direct Student Loan Coalition (www.directstudentloancoalition.org) is also providing assistance

Temporary In-School Consolidations

- Borrowers with loans in at least two of DL, FFEL and ECASLA may consolidate their loans while they are in school from 7/1/2010 to 6/30/2011
  - Weighted average interest rate will not be rounded
- Most borrowers should not use this provision as they will lose the remainder of the six-month grace period on their loans and there is no real benefit to consolidating while they are in school
  - The interest rates on federal education loans since 7/1/2006 are already fixed
  - Borrowers can consolidate after entering repayment

Key FFEL/DL Differences for Students

- The interest rate on DL PLUS is lower (7.9% vs. 8.5%)
- The approval rate on DL PLUS is higher, probably due to some FFELP lenders incorrectly implementing the adverse credit history criteria
  - Some FFELP lenders use a five-year look-back for 90-day delinquencies instead of just a current 90-day delinquency
  - Analysis of 2007-08 NPSAS data shows a Parent PLUS loan denial rate of 42% in FFEL and 21% in DL
- Obtain new loans through the financial aid office

Income-Based Repayment Changes

- Cuts monthly payment by one-third from 15% of discretionary income to 10% of discretionary income
- Accelerates forgiveness of remaining balance from 25 years to 20 years (public service loan forgiveness unchanged at 10 years)
- These changes are effective for new borrowers of new loans made on or after July 1, 2014
- The changes are not retroactive. Current borrowers will not benefit. (Current borrowers can still use the current IBR program.)

SAFRA Timeline

- Original version of SAFRA
  - The Student Aid and Fiscal Responsibility Act of 2009 (H.R. 3221) passed the House on 9/17/2009
  - Action in the Senate was delayed to preserve budget reconciliation for the health care reform legislation
- Reconciliation version of SAFRA
  - SAFRA was included in the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152), but with major modifications
  - SAFRA passed the Senate 56 to 43 and the House 220 to 207 on 3/25/2010, and was signed into law on 3/30/2010

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**Pell Grant Changes**

- Maximum Pell Grant will be $5,550 in 2010-11 through 2012-13, indexed to CPI-U from 2013-14 through 2017-18, and then flat through 2019-2020
  - Projected maximum grant of $5,975 in 2019-2020
  - Average annualized increase of CPI-U minus 0.75%
- Eligibility cutoff for 2010-11 will increase to $5,273 from $4,617 (95% of overall maximum)
- Still a combination of discretionary and mandatory funding, so not a true entitlement

**Provisions Dropped from SAFRA**

- Perkins loan expansion and reengineering
- CPI-U + 1% indexing of maximum Pell Grant
- Additional FAFSA simplification changes
  - Replacement of 6 asset questions with a net asset cap on eligibility for need-based federal aid
  - Elimination of 12 untaxed income & benefit questions
- College Access Challenge Grant program funding cut from $3 billion to $750 million
- Community College funding cut from $10 billion to $2 billion and aimed at career training grants

Thank You

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