



BUDGET CONTROL ACT OF 2011

President Obama signed the Budget Control Act (BCA) into law on August 2, 2011. In addition to increasing the federal debt ceiling, this legislation changes the William D. Ford Federal Direct Loan program. The changes in the legislation DO NOT affect the amount available to students through the federal loan programs. Students who are eligible to receive Federal Stafford and Graduate PLUS Loans remain able to borrow the same amount.

IMPACT ON GRADUATE AND PROFESSIONAL STUDENT LOAN FUNDING:

- **Interest Subsidy for Graduate Students:** *Effective for loans made for periods of enrollment beginning on or after July 1, 2012*, graduate and professional students are no longer eligible to receive Federal Direct Subsidized Stafford Loans. Currently, the federal government pays the interest that accrues on Federal Direct Subsidized Stafford Loans while in school (at least half-time status), during the grace period, and during an accepted deferment period.
 - With the elimination of this subsidy, all Direct Stafford Loans will accrue interest while in school, and during grace and deferment periods – as currently occur with Direct Unsubsidized Stafford Loans. The amount you are able to borrow will remain the same, but there will no longer be a Direct Subsidized Stafford Loan for graduate and professional students.
 - The terms and conditions of Direct Subsidized Loans received by any student for loan periods beginning before July 1, 2012, for either graduate or undergraduate study, are not affected by this change.
- **Direct Loan Repayment Incentives:** With one exception (noted below), the BCA terminates the authority of the Department of Education (the Department) to offer any repayment incentives to Direct Loan borrowers to encourage on-time repayment of loans, including any reduction in the interest rate or origination fee, *effective for loans first disbursed on or after July 1, 2012*.
 - Origination fee rebate: For Federal Direct Stafford Loans this incentive was equal to 0.5% of the loan amount and reduced the 1% loan origination fee, so that borrowers were charged a net fee of 0.5%. For Federal Direct Graduate PLUS loans, the up-front origination fee rebate was 1.5% of the loan amount and reduced the 4% origination fee for a net fee of 2.5%. The rebate increased the amount disbursed to the student. Borrowers were able to keep the rebate if they made their first 12 payments on time.
 - Beginning July 1, 2012, borrowers will be charged the full origination fees of 1% for the Federal Direct Stafford Loan and 4% for the Federal Direct Graduate PLUS Loan.
 - The law continues to authorize the Department to offer interest rate reductions to Direct Loan borrowers who agree to have payments automatically electronically debited from a bank account.
 - This incentive currently provides borrowers with a 0.25 reduction to their interest rate as long as their monthly payments are made through automatic debit.

IMPORTANT NOTES:

- None of these changes will go into effect until July 1, 2012. Students will receive the interest subsidy and origination fee rebate for the current academic year.
- The above changes will not affect the amount of loan funding available.
- No changes have been made to the variety of repayment plans and options open to borrowers.

These changes may prompt questions. It is expected to know more as the Department of Education works through the implementation of this legislation. The Financial Aid Office will continue to monitor the situation and provide you with more details as they become available. As always, please contact the graduate financial aid office with any questions or concerns.

ADDITIONAL RESOURCES:

[Budget Control Act of 2011](#)

[CNN Money Article](#)