

JOHNS HOPKINS UNIVERSITY

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Dear Student,

President Obama signed the Budget Control Act into law on August 2, 2011. This legislation increased the federal debt ceiling in order to prevent the United States from defaulting on current financial obligations. As a part of this legislation, cuts were made to some federal programs, including to the student aid programs. The objective of the cuts to the student aid programs was to preserve Pell Grant funding levels as much as possible, since that program funds the highest need students.

The impact on student aid programs is:

Interest Subsidy For Graduate Students - Beginning 7/1/2012, graduate and professional students will no longer be eligible to receive subsidized Federal Direct Loans. Direct Loans available to graduate students (the entire amount) will be the current unsubsidized Direct Loans which have always accrued interest while the student is in school. The amount that graduate students are eligible to borrow remains unchanged. The impact of the loss of the subsidy varies by student, as not all students were eligible to borrow the full amount of subsidized loan. We estimate that for a student who would have borrowed the maximum amount and graduates in 2 years that the difference in the interest paid will be about \$5,000.

Direct Loan Repayment Incentives – Repayment incentives, which do have a cost, were also eliminated in the final package for all students, not just graduate and professional students. The language specifically prohibits the Department of Education from authorizing or providing repayment incentives on new loans disbursed on or after 7/1/2012, except that borrowers who agree to make payments via automatic EFT may continue to be eligible for a .25% interest rate reduction. However, included in these cuts is the current “origination fee rebate” in the federal loan programs, which ends on 7/1/2012. How the rebate currently works is that an origination fee of 1% for Direct Loans and 4% for PLUS Loans is currently “charged” up front by the federal government but half of the fee is rebated to the borrower at the time of disbursement. If the borrower fails to make on-time payments in the first couple years of repayment, then the rebated portion of the fee is re-applied to the loan. This rebate is ending. Beginning on 7/1/2012 all new loans will be charged the full origination fee at the time of disbursement.

Grace Period Interest Subsidy – On December 23, 2011, the President signed the Consolidated Appropriations Act into law. The interest subsidy provided on Direct Loans during the six month grace period after graduation, withdrawal or otherwise dropping below half-time status has been temporarily eliminated. This change will be effective for new Direct Stafford Loans for which the first disbursement is made on or after July 1, 2012, and before July 1, 2014.

For more information on these changes, please refer to the following:

White House -

<http://www.whitehouse.gov/blog/2011/08/04/myths-and-facts-about-debt-ceiling-compromise>

National Association of Student Financial Aid Administrators - [http://www.nasfaa.org/Advocacy/Debt-Ceiling/Debt_Ceiling_Law_Provides_\\$17_Billion_for_Pell_and_Ends_Grad_Student_Loan_Interest_Subsidy.aspx](http://www.nasfaa.org/Advocacy/Debt-Ceiling/Debt_Ceiling_Law_Provides_$17_Billion_for_Pell_and_Ends_Grad_Student_Loan_Interest_Subsidy.aspx)

IFAP - <http://www.ifap.ed.gov/dpclatters/attachments/GEN1201.pdf>

Again, please remember that these changes affect only new loans disbursed on or after 7/1/2012. Any loans that you currently have will not be impacted by these changes.

If you have any questions, please let us know.

Sincerely,

Office of Student Financial Services