

## Direct Subsidized Loan Changes Effective July 1, 2013

Effective July 1, 2013, the law restricts the benefits of the Direct Loan subsidy to a limit of no more than 150% of the student's program length (measured in academic years) for new borrowers.

Once that limit has been exceeded, a student may borrow only unsubsidized loans, and will begin to incur interest charges on outstanding subsidized loans.

For example, a student enrolled in a two-year program will have three years' worth of subsidized loan eligibility (150% of 2 years=3) and a student enrolled in a four-year program will have six years' worth of subsidized loan eligibility (150% of 4 years is 6).

Because your maximum eligibility period is based on the length of your current program of study, your maximum eligibility period can change if you change to a program that has a different length. Also, if you receive Direct Subsidized Loans for one program and then change to another program, the Direct Subsidized Loans you received for the earlier program will generally count toward your new maximum eligibility period.

[Certain types of enrollment may cause you to become responsible for the interest that accrues on your Direct Subsidized Loans](#) when the U.S. Department of Education (USDE) usually would have paid it.

The U.S. Department of Education will undertake the tracking responsibilities to determine when the subsidy limit has been reached, inform schools of a borrower's subsidy usage, and notify borrowers when the limit has been exceeded. The borrower becomes responsible for accruing interest during all periods as of the date the borrower exceeds the 150 percent limit.

The National Association of Student Financial Aid Administrators (NASFAA) has compiled a list of [common questions about this rule](#). If you have specific questions about your loan situation, please contact our office.

| <b>Do I become responsible for paying the interest that accrues on my Direct Subsidized Loans because . . .</b>  | <b>Yes</b> | <b>No</b> |
|--|------------|-----------|
| I am no longer eligible for Direct Subsidized Loans and I stay enrolled in my current program?   | X          |           |
| I am no longer eligible for Direct Subsidized Loans, did not graduate from my prior program, and am enrolled in an undergraduate program that is the same length or shorter than my prior program?   | X          |           |
| I transferred into the shorter program and lost eligibility for Direct Subsidized Loans because I have received Direct Subsidized loans for a period that equals or exceeds my new, lower maximum eligibility period, which is based on the length of the new program? | X          |           |
| I was no longer eligible for Direct Subsidized Loans, did not graduate from my prior program, and am enrolled in an undergraduate program that is longer than my prior program?  |            | X         |
| I lose eligibility for Direct Subsidized Loans and immediately withdraw from my program?   |            | X         |
| I graduated from my prior program prior to or upon meeting the 150% limit, and enroll in an undergraduate program that is the same length or shorter than my prior program?  |            | X         |

[studentaid.ed.gov](http://studentaid.ed.gov) – *The U.S. Department of Education offers low-interest loans to eligible students to help cover the cost of college or career school.*

### **When does the law limiting the subsidy on Direct Loans go into effect?**

July 1, 2013

### **Which borrowers are impacted by the new limit on subsidized Direct Loans?**

The limit on subsidized Direct loans affects new borrowers, or “first-time” borrowers. A new borrower is defined as a student who has no outstanding principal balance on a Direct Loan (DL) Program or FFEL Program loan on July 1, 2013, or on the date the borrower obtains a Direct Loan after July 1, 2013. A student who had paid off all outstanding balances on DL or FFEL loans as of July 1, 2013, is a new borrower for this purpose.

## **What will the US Department of Education (USDE) be responsible for?**

USDE will be responsible for the following:

- Determining whether a loan applicant is a new borrower for subsidy limit purposes;
- Tracking borrowers' subsidized loan borrowing in greater detail;
- Informing schools of the number of periods a borrower has received subsidized loans;
- Informing borrowers when they exceed the eligibility limit and become responsible for accruing interest.

## **Does a transfer student “reset” his or her eligibility when they transfer?**

In general, a student who transfers between programs does not reset his or her eligibility. Loans borrowed for the previous program will count against the student's current limit. For example, a student receives three years of subsidized loans for a two-year program, then transfers into a four-year program. For the four-year program, the student's maximum eligibility period is six years, but she has already used up three years of eligibility, so she has three years of subsidized eligibility remaining while in the four-year program.

## **What happens to transfer students who enter into a program of study that is shorter than his or her previous program?**

Under the interim final rule, this student might not have remaining subsidized eligibility in some cases. For example, a student who completed a four-year program having borrowed each year and then returns to school for a two-year program would have no remaining subsidized eligibility since he received subsidies for four full years already.