Stafford Loans are available to both undergraduate and graduate students. As of July 1, 2010, federal Stafford Loans are made to students through the Direct Loan Program only (and are often referred to simply as Direct Subsidized Loans and Direct Unsubsidized Loans). Prior to July 2010, there were FFEL Stafford Loans as well. Direct Stafford and FFEL Stafford loans have identical loan limits and identical deferment and cancellation provisions. There are some important differences in repayment options.

Stafford Loans are either subsidized or unsubsidized. Borrowers can receive a subsidized and an unsubsidized loan for the same enrollment period. A subsidized Stafford Loan is awarded on the basis of financial need. The key difference between the two types of Stafford Loans is that, for subsidized loans, borrowers are not charged any interest before the repayment period begins or during authorized periods of deferment. In essence, the government “subsidizes” the interest during these periods.

Unsubsidized loans are not awarded on the basis of financial need. Interest is charged from the time the loan is disbursed until it is paid in full. Annual and aggregate loan limits are set out in the Department of Education regulations.

A provision in the Budget Control Act of 2011 eliminated subsidized loan eligibility for graduate and professional students, effective July 1, 2012. The annual loan limits for graduate and professional students were not changed, but these amounts are now limited to Direct Loan Program unsubsidized loans.

In addition, new borrowers on or after July 1, 2013 are not eligible for Direct Subsidized Loans if the period during which the borrower received those loans exceeds 150% of the published length of the educational program. Borrowers reaching the 150% limit also become ineligible for interest subsidy benefits on all Direct Subsidized Loans first disbursed on or after July 1, 2013. The Department of Education (the Department) clarified that the loss of the interest subsidy on existing loans is triggered by the borrower’s enrollment, not by whether the borrower has requested or received Title IV aid. However, the National Student Loan Data System (NSLDS) did not track enrollment information prior to October 2014. As a result, the Department estimates that about 6000 borrowers received an interest subsidy they were not eligible for and had their account balances adjusted to reflect a loss of the subsidy. The Department has also identified a persistent problem of schools misreporting or failing to correct the length of their programs in NSLDS in a manner that triggers the loss of interest subsidy for borrowers.

Footnotes

23 [23] See Ch. 2 [1], infra (Stafford terms and loan limits).

24 [24] See § 3.3 [2], infra (income-driven repayment plans).


27 [27] See § 2.2 [3], infra (loan limits).


29 [29] Id.

31 [31] See U.S. Dep’t of Educ., 150% Direct Subsidized Loan Limit: Electronic Announcement #22—Important Reminders About Program Level Enrollment Reporting to NSLDS (May 13, 2016). The Department has indicated that such erroneous reporting in NSLDS can and should be corrected by the institutions themselves. See also U.S. Dep’t of Educ., 150% Direct Subsidized Loan Limit: Electronic Announcement #21—Common Subsidized Loan Limit Usage Inquiries (May 11, 2016).

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