

## The Student Loan Reform and Deficit Reduction Legislation

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The recently enacted Health Care and Education Reconciliation Act contained the Student Aid and Fiscal Responsibility Act as a rider. Many Americans don't realize that student aid provisions were paired with the healthcare legislation, yet this legislation represents the single largest investment in federal student aid in history.

Beginning July 1, all new federal student loans will come directly from the U.S. Department of Education rather than through commercial banks. Additionally, Stafford loans for part-time undergraduate and graduate students will come directly from the government. By eliminating banks as the middlemen, the government could save millions of dollars by not having to pay fees to the banks.

The biggest immediate downside for students will be their inability to obtain certain discounts that private lenders offered in the past. But, all undergraduates will continue to be eligible to borrow at least \$5,500 (and up to \$12,500) at an interest rate that cannot exceed 6.8 percent a year. Those who qualify as "needy" can continue to borrow at lower interest rates.

Graduate students will be eligible for Stafford loans of up to \$20,500 per year at an interest rate also capped at 6.8 percent. They also can continue to borrow the full cost of graduate school (less any other financial aid) through the Grad PLUS program at an annual interest rate of no more than 7.9 percent.

What's more, parents may obtain Federal Parent PLUS loans directly from the federal government. This most likely will save parents money because the interest rates for Federal Parent PLUS loans are capped at 7.9 percent a year, while private lenders charged as much as 8.5 percent in interest in the past.

The estimated savings to the federal government of roughly \$68 million will be used to increase Pell grants, which typically go to students from families earning less than \$45,000 per year. The amount a recipient receives under a Pell grant, if the estimates are correct, will rise from \$5,550 to approximately \$5,975 by the year 2017 and will provide for up to 820,000 more grants by the year 2020.

The Student Aid Act will infuse \$2 billion into community colleges all over the United States during the next four years to help bolster education and career training programs for young people who desire to learn a vocational trade, and for workers who have been displaced from employment during the most recent catastrophic recession. Many community colleges already have started programs, but need federal funds to properly train or re-train potential students.

Students pursuing higher education who borrow money beginning in July of 2014 can cap loan repayments at 10 percent of their income above a basic living allowance, compared to the previous cap of 15 percent. Moreover, loans will be forgiven after 20 years (instead of the current 25 years) in the event that they are not paid in full. Also, loans for people employed in the public sector, such as teachers, nurses, police officers or military personnel, will be forgiven after 10 years.

The new law also allocates \$750 million in grants to help support the College Access Challenge Grant program which funds innovative programs that focus on increasing financial literacy. And, it provides \$2.55 billion in funding to help support historically African-American universities, Hispanic-serving institutions, tribal colleges and other minority-serving educational institutions as incentives for those students to stay in school and graduate.

Opponents of the law claim that this legislation is nothing more than a takeover of the student loan system and that these changes will cause thousands of jobs to be lost in the private sector. Proponents argue that the jobs simply will move from the private sector to the government and, coupled with the reduction in cost, this clearly will benefit the country. The House Committee on Education and Labor estimated that the law will reduce the deficit by at least \$10 billion over the next 10 years.

Overall, the Student Aid and Fiscal Responsibility Act will help make higher education more affordable for more Americans at little or no additional cost to the American taxpayer. It creates and funds programs which support students from less privileged homes and provides for more universal access to higher education.

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