

New Law Revamps Student Loan Program

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The new Health Care and Education Reconciliation Act of 2010—recently signed in conjunction with the monumental new health care law—includes dramatic reforms in the federal student loan program. This new legislation could affect families of all stripes for years to come.

Here is a brief summary of four points you should know about.

1. The new law changes the way that student loans are administered. Effective July 1, 2010, the federal government will be the originator of the loans. Previously, banks originated the loans, and the government guaranteed them. In other words, this provision effectively cuts out the “middle man.” Under the new system, the process should be simplified. Students may apply for loans at a college’s financial aid office. Each school will work with government-approved private companies to hand out the funds.

2. Students will benefit from more favorable repayment terms. Effective for loans signed after July 1, 2014, a loan payment cannot exceed 10% of the borrower’s discretionary income, down from 15%. Furthermore, debts on student loans will be forgiven after 20 years, even if the student has not completely paid off the loan. The current period for such “forgiveness” is 25 years. Finally, if a student pursues certain public services—such as teaching, nursing or the military—the forgiveness period is only ten years. Note: These provisions do not apply to private bank loans.

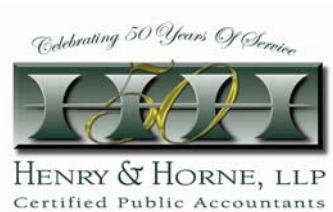
3. Other changes are designed to alleviate economic hardship. For instance, the new law enhances the benefits available under the federal Pell Grant program. Unlike regular student loans, Pell grants do not have to be repaid. A student’s eligibility for a Pell grant is determined by household income.

Beginning in 2013, the maximum Pell grant will gradually increase, based on consumer price inflation adjustments. The government says the maximum grant will rise from \$5,550 to \$5,975 by 2017. It also expects to provide 820,000 more grants by 2020.

4. Finally, the new law invests \$2.55 billion in certain universities historically serving minorities to provide students with the support they need to stay in school and graduate. It also invests \$2 billion in a competitive grant program for community colleges to develop and improve educational or career training programs.

If your family will need to borrow funds to finance a college education, the loans should be coordinated as part of an overall financial plan. Do not hesitate to seek assistance from your advisers.

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