Frequently Asked Questions
Reducing Annual Loan Limits for Less-than-Full-Time Enrollment
Using the Schedule of Reductions
as of July 2026

These Frequently Asked Questions (FAQs) provide information on the new final regulations for reducing loan limits for less-than-full-time borrowers in 34 CFR 685.203(m). These Final Regulations were published on May 1, 2026, and implemented changes from the *Working Families Tax Cuts Act* (Public Law 119-21 or the Act).

The Department reviewed many comments on reducing annual loan limits for these borrowers that were received during the public comment period and responded to them in the new final regulations. Since the time that the new regulations were published, the Department has received additional questions regarding the application of these new regulations, particularly the interaction between the new regulations with other existing regulations, such as those applicable to disbursements.

The reduction of annual loan limits using the Schedule of Reductions has been implemented to work in conjunction with other Direct Loan and Title IV eligibility and disbursement requirements, some of which may also reduce a borrower's actual annual loan limit. In discussing the initial proposed regulations that were considered during negotiated rulemaking and after considering public comments on that proposal and reviewing alternative approaches, the Department noted in the preamble of the Final Rule that it was more workable and less disruptive to align the new annual loan limit reduction requirement with existing eligibility and disbursement processes rather than to create an elaborate and separate loan limit recalculation regime or creating multiple institution-specific frameworks for the calculations.

For instance, these FAQs discuss how institutions continue to apply cost of attendance, other financial assistance, aggregate and lifetime loan limits, need for subsidized loans, half-time enrollment, satisfactory academic progress requirements, and other applicable Title IV regulations, when required, in conjunction to following the new loan limit reduction regulations. Additionally, several situations involving the interaction of the new regulations with specific requirements for awarding and disbursing Federal student loans are discussed in subsequent FAQs below.

These FAQs will be updated periodically as new questions are posed and answered concerning the new final regulations. New and/or updated questions will be marked as NEW.

Other than existing statutory and regulatory requirements that are specifically stated in this document, the contents of this guidance do not have the force and effect of law and are not meant to bind the public. This document is intended only to provide clarity to the public regarding the new regulations and the interaction with existing requirements under the law or agency policies.

1. What is the *Schedule of Reductions*?

The Schedule of Reductions is a mathematical equation contained in 34 CFR 685.203 (m) of the new final regulations that is used for reducing the annual amount of a Direct Loan (Subsidized, Unsubsidized, and Graduate PLUS) that a student may borrow when they are enrolled on less than full-time basis during an academic year.

Unlike other changes in the new regulations, the statute requires that annual loan amounts must be reduced for all students who are enrolled less than full-time, including those who are eligible for the interim exception and who continue to be eligible for pre-July 1, 2026, loan limits and the Graduate PLUS program.

Prior to the enactment of these changes in the Act and the new regulations implementing them, students attending costly institutions could in many cases borrow the maximum annual loan amount even though they were not enrolled full-time during the year. Some students were able to receive the full annual loan amount even when they were not enrolled for the entire academic year. Not only was this anomaly in the loan limits inequitable to students who enrolled full-time, it also contributed to significant overborrowing by students.

The Schedule of Reductions is a percentage reduction in the annual loan amount that is in direct proportion to the degree to which a student is not enrolled on a full-time basis (rounded to the new whole percentage point). There are two different equations for the Schedule of Reductions depending on whether the period of enrollment is a full academic year or less than a full academic year. The result of applying this percentage reduction to the original annual loan limit becomes the new annual loan limit that the borrower is eligible to receive based on their less-than-full-time enrollment status during that academic year, and which is used for disbursements of loans.

2. Which borrowers must have their annual loan limits reduced?

Any student borrower (undergraduate, graduate, or professional) who is enrolled less than full-time during an academic year must now have the annual amount of their loans reduced using the new Schedule of Reductions required by the statute and published in the new regulations.

As noted in the previous FAQ, unlike other changes in the new regulations, annual loan amounts must be reduced for all students who are less than full-time -- including those who are eligible for the interim exception and who continue to be eligible for pre-July 1, 2026, loans and loan limits. However, parents who have taken out a Parent PLUS loan on behalf of their dependent students are not subject to such a reduction in annual loan limits.

3. Which loans must have the annual loan limit reduced for less than full-time enrollment?

The annual loan limit reduction applies to any loan that a student borrows which includes Direct Subsidized Loans, Direct Unsubsidized Loans and Graduate PLUS loans (for borrowers with continued eligibility for that program under the interim exception).

As noted earlier, Parent PLUS Loans are not subject to the new requirements to reduce annual loan limits for less than full-time students.

4. What is the effective date for the new requirements to reduce annual loan limits for less than full-time students?

Institutions are required to reduce the annual loan limit for less-than-full-time enrollment for any Direct Loan borrower who is not enrolled full-time for a period of enrollment that begins on or after July 1, 2026.

Specifically, if a loan period or borrower-based academic year (BBAY) begins before July 1, 2026, the reduction requirement does not apply to disbursements that are for the 2025-2026 award year. Any loan borrowed for any award year in or after 2026-27 is subject to the annual loan limit reduction.

5. How is full-time enrollment defined?

Institutions define full-time enrollment subject to the minimum standards in the regulations (See *Full-time student* as defined in 34 CFR 668.2(b) and discussion of *Enrollment Status* in Volume 1, Chapter 1 of the Federal Student Aid Handbook.)

For an undergraduate student, the definition of full-time student in 34 CFR 668.2(b) requires that an institution's minimum standard must equal or exceed one of the following minimum requirements, based on the type of program:

- For a program that measures progress in credit hours and uses standard terms (semesters, trimesters, or quarters) 12 semester hours or 12 quarter hours per academic term;
- For a program that measures progress in credit hours and does not use terms, 24 semester hours or 36 quarter hours over the weeks of instructional time in the academic year, or the prorated equivalent if the program is less than one academic year.
- The number of credits determined by dividing the number of weeks of instructional time in the term by the number of weeks of instructional time in the program's academic year and multiplying by the number of credit hours in the program's academic year for a credit hour program that uses nonstandard terms (terms other than semesters, trimesters, or quarters)
- At least 900 clock hours for a program that is measured in clock hours.

For graduate or professional students, there are no minimum standards for full-time students in the regulations. Full-time status is determined by the number of credit hours taken by a student in each term during an academic year.

6. Are borrowers in programs with all types of academic calendars required to have their annual loan limits reduced when they are enrolled on a less than full-time basis during an academic year?

No. In general, institutions that use academic calendars with terms, and where students are typically awarded aid based on their enrollment status, are required to reduce the annual loan amounts whereas those using calendars that do not use terms, are awarded aid as full-time students and who do not receive subsequent aid until they have completed the clock hours or credit hours for which they have paid, are not required to reduce the annual loan amounts for less than full-time students.

Specifically, institutions are required to reduce loan limits for students who are enrolled less than full-time in programs that use the following academic year calendars:

- Scheduled Academic Year - Term-based (semester, trimester, quarter)
- Borrower-Based Academic Year (BBAY 1)
- Non-standard term programs (SE9W)
- Borrower-Based Academic Year (BBAY 2)
- Modules that are **not** part of non-term programs

However, institutions are NOT required to reduce annual loan limits for students in programs where the academic calendar requires borrowers to complete prescribed hours in the enrollment periods before earning additional loan funds:

- Clock hours
- Non-term credit hours
- Borrower-based Academic Year (BBAY3)
- Modules in non-term programs

Subscription-based programs, which by design have features of both term-based and non-term-based academic calendars, have specific requirements in the new regulations (34 CFR 203(m)(1)(ii)). The requirements were added to the final regulations in response to public comments received by the Department on the proposed regulations and are discussed in the next FAQ.

7. How do the existing awarding and disbursement rules apply when reducing annual loan amounts for students who are enrolled less than full-time?

While the new regulations now limit the annual loan amount a borrower may receive when he or she is enrolled less than full-time, they did not replace the specific regulations for determining loan amounts and disbursements of Federal student loans.

The following chart summarizes the existing requirements that are not affected by the new regulations:

Existing requirement	Impact
Cost of attendance	Still caps the amount that may be awarded, but is reduced based on borrower's current enrollment status
Other financial assistance	Still must be counted in determining eligibility
Financial need for subsidized loans	Still limits Direct Subsidized Loan eligibility

Annual, aggregate, and lifetime maximum loan limits	New annual loan limits apply for professional students, lifetime limits (if reached) can now impact all annual loan amounts received, and aggregate limits continue to impact annual loan limits if reached (34 CFR 685.203)
Half-time enrollment status	Student must be at least a half-time student in an eligible program to be eligible to receive a Direct Loan (668.32(a)(2))
Return of Title IV funds	Applies separately if the student withdraws from the institution during the award year (668.22)
Satisfactory Academic Progress	Continues to apply the same way it applies currently (668.34)
Enrollment reporting to NSLDS	Continues to apply the same way it applies currently
Late disbursement / cancellation	Continues to apply the same way it applies currently

8. What are the steps that an institution must take under the new regulations to determine that the borrower's reduced annual loan eligibility when they enroll less than full-time in an academic year.

To determine the borrower's reduced annual loan eligibility when a borrower enrolls less than full-time, the institution takes the following steps:

a. Determines the Annual Loan Limit amount after it has been reduced by any other eligibility criteria, such as cost of attendance, aggregate or lifetime limits, other financial assistance, remaining need (if applicable). If the period of enrollment is less than a full academic year, under the new regulations the institution determines the amount of the academic year loan limit that the term represents.

b. Reduces that Annual Loan Limit using the appropriate Schedule of Reductions fraction (full academic year or less than academic year) in 34 CFR 685.303 (m) to determine the reduced annual loan limit percentage rounded to the nearest whole percentage point (using traditional mathematical rounding rules).

c. Disburses the loan in accordance with 34 CFR 685.203 and 34 CFR 668.164(b)(3) at the annual loan amount that has been reduced for the less-than-full-time enrollment.

9. Existing regulations for processing loan proceeds in § 685.303(d)(5) require loan proceeds to be disbursed in substantially equal installments and generally, no installment may exceed one-half of the loan. Are substantially equal disbursements required when a borrower's loan has been reduced using the Schedule of Reductions?

The new regulations amended § 685.303(d)(5) to provide a new exception to the requirement in that section that schools must disburse loan proceed in substantially equal installments, in those instances when a borrower's annual loan limit has been reduced for less than full-time enrollment under the new statute and regulations. The Department clarified in the preamble of the new regulations that its intent in making this change was to provide institutions with flexibility in how they disbursed loan proceeds after they reduced annual amount for less-than-full-time students. However, the institution may continue, but is not required to, disbursed the reduced loan amount in substantially equal disbursements.

10. When is rounding required when reducing loan amounts for less-than-full-time borrowers under the new regulations?

The statute and new regulations in 34 CFR 685.203(m) require that institutions round the reduced annual loan percentage to the nearest whole percent, and the Department uses standard mathematical rounding of number ending 0 - 4 round down and numbers ending in 5 - 9 rounded up.

Disbursement amounts must also be rounded up or down according to standard mathematical rounding to the nearest whole dollar when the result of the calculation includes cents.

11. When does an institution measure the student's enrollment status for purposes of determining the borrower's annual loan limit?

The institution measures the student's enrollment status as of the date(s) the institution is determining the student's eligibility for disbursements under 34 CFR 668.164(b)(3). Institutions must also follow the Direct Loan disbursement rules under 34 CFR 685.303, including the requirement to disburse loan proceeds on a payment period basis in accordance with 34 CFR 668.164(b).

While an institution may initially package a student based on expected full-time enrollment or less than full-time enrollment status when future enrollment status is not yet known, the institution must confirm all eligibility criteria are met, including enrollment status as of the date the institution determines the student's eligibility for the disbursement in accordance with 34 CFR 668.164(b)(3).

If the student is enrolled less than full-time at that point, the institution must reduce the annual loan limit by applying Schedule of Reductions for the borrower's current enrollment status for the academic year to the annual loan limit prior to disbursement.

12. If a borrower's enrollment status changes after an institution makes a loan disbursement, what are institutions required to do?

The Department has not required institutions to recalculate a loan for changes that occur after a disbursement has been made, such as in the case of Direct Loan overawards. Likewise, if a borrower's enrollment status changes after the institution have made a disbursement, the institution is not required to recalculate a borrower's loan limit and adjust that disbursement. However, an institution may do so by recalculating the student's annual loan limit using the Schedule of Reductions with the updated enrollment status and adjusting the prior disbursement.

However, if another subsequent disbursement still remains for the same loan period, the institution must recalculate the annual loan amount using the borrower's enrollment status for the academic year at the point of that subsequent disbursement and adjust the borrower's eligibility accordingly.

13. How can institutions avoid 'double-prorating' a loan when both existing loan limit proration rules under 34 CFR 685.203 (a) – (c) and the new regulations for reducing annual loan limits for less-than-full-time students apply?

Existing annual loan limit proration regulations at 34 CFR 685.203 (a) through (c) require institutions to prorate the Direct Loan annual loan limit for undergraduate programs with remaining periods of study that are shorter than an academic year. When you are applying these loan proration requirements, you do not also further reduce that annual limit for less-than-full-time enrollment because the actual hours that is student is enrolled are already taken into consideration in that proration calculation.

14. If a borrower requested less than the maximum annual loan amount, does the institution reduce that annual loan limit using the borrower's requested amount or the applicable maximum loan amount?

For Direct Subsidized and Direct Unsubsidized Loans, the institution reduces the annual loan amount of a borrower who is less than full-time after considering the borrower's eligibility at the annual loan limit for the loan type, grade level, dependency status, and loan period. If the borrower requests a loan amount that is less than the reduced annual loan limit, the institution must provide the lower amount. If a borrower requested more than reduced annual loan limit, the institution would provide no more than the reduced annual loan limit.

15. When must institutions determine a borrower's enrollment status, and what happens if enrollment changes after a disbursement has already been made?

Under the new regulations institutions determine enrollment status as of the date the institution determined the student's eligibility for each disbursement under 34 CFR 668.164(b)(3). While institutions may initially package based on expected, assumed, or intended enrollment, including full-time or half-time enrollment where future enrollment is not yet known, however if the borrower is enrolled less than full-time, the reduced annual loan limit must be updated before each disbursement of the loan during that academic year using the enrollment information because it is part of the student's eligibility for that disbursement under 34 CFR 668.164(b)(3).

16. If a freshman student is enrolled in 12 credit hours (considered full-time by institution) when the disbursement for first semester is made, later withdraws from 6 credits in that semester, and then enrolls in 6 credits in second semester, how should the institution determine the student's loan eligibility for the second semester?

The annual loan limit was not reduced if the first disbursement was made when the student was enrolled in 12 credits, the institution is not required to retroactively reduce that Fall disbursement because the student later withdrew from 6 Fall credits. The institution may reduce the Fall disbursement or adjust for the enrollment change in the subsequent term.

However, if the Fall disbursement was not adjusted for the enrollment change, before making the Spring disbursement, the institution must determine the student's remaining eligibility for the loan period using the enrollment information that applies as of the Spring disbursement eligibility determination.

Step 1 – Recalculate before Spring disbursement:

Calculation Step	Calculation/ Result
Fall enrollment (actual)	6 credits
Spring enrollment	6 credits
Number of credits enrolled in academic year	6 + 6 = 12 credits
Number of credits in full-time yr (denominator)	24 credits
Schedule of reductions percentage	12 ÷ 24 = 50%
Annual loan limit	$5,500

Reduced annual loan amount	\$5,500 x 50% = \$2,750

Step 2 – Determine remaining Spring disbursement:

Calculation Step	Calculation/ Result
Reduced annual loan amount	\$2,750
Amount disbursed to date	\$2,750 (\$5,500 ÷ 2); expected full-time enrollment each term.
Remaining Spring eligibility	\$0

17. A full-time student earned an "F" or incomplete after a valid disbursement. If a student was enrolled full-time when the institution determined eligibility for a Fall Direct Loan disbursement, but later receives an "F", incomplete, or no-credit grade for one or more of the fall courses, must the institution reduce the student's spring disbursement because the student did not complete the courses in the fall?

As discussed in Volume 5, Chapter 2 of the *Federal Student Handbook*, institutions must have procedures for determining whether a recipient of Title IV, HEA assistance who began attendance during a period completed the period or should be treated as a withdrawal. The Department does not specify a particular procedure for making this determination.

The institution may not need to reduce the Spring disbursement solely because the student received an earned "F", incomplete, or no-credit grade in the prior semester. The annual loan limit reduction for less-than-full-time students is based on the student's enrollment for the academic year and is measured when the institution determines the student's eligibility for loan disbursements. An "F" or incomplete grade generally does not mean that the student was not enrolled in the course. Under the new regulations the institution measures full-time enrollment based on the number of credits the student enrolled in during the academic year compared to the number of credits that are considered by the institution to be full-time for an academic year.

18. How do the new regulations for reducing annual loan limits apply to graduate/professional borrowers, borrowers who qualify for the interim exception (including those who continue to be eligible for Graduate PLUS), and one-term loan periods?

The new regulations now require that the annual loan limits for all Direct Loan student borrowers, including graduate and professional student borrowers, be reduced using the Schedule of Reductions whenever they are enrolled less-than-full-time for the academic year.

For Direct Loans with a fixed annual loan limit, such as Direct Unsubsidized Loans, the institution reduces the applicable annual loan limit for a full-time student by the percentage in the Schedule of Reductions based on the students' enrollment during the academic year.

For borrowers who remain eligible for Graduate PLUS loans under the interim exception, the institution first determines the borrower's annual loan limit for any Direct Unsubsidized loan using the Schedule of Reductions, as discussed above. It then reduces the annual loan limit for the Graduate PLUS using the cost of attendance minus other financial assistance (including the reduced Unsubsidized Direct Loan)

For a one-term loan, the institution should apply a single term loan limit, then reduce that loan limit if the borrower is less than full-time.

19. What is the order of operations for determining the reduced annual Graduate PLUS loan limit for an eligible borrower enrolled less than full-time under the interim exception?

For a less-than-full-time Graduate PLUS borrower (borrower who continues to be eligible for Graduate PLUS under the interim exception), an institution would first reduce the annual loan limits (if any) for the Direct Unsubsidized Loan before reducing the Graduate PLUS Loans. The order of operation would be as follows: An institution would first reduce Direct Unsubsidized Loans using the Schedule of Reductions based on the less than full-time enrollment. The institution then applies all the reduced and other financial assistance to the cost of attendance for the borrower's actual enrollment status for the academic year to determine the borrower's initial annual Graduate PLUS loan limit and then applies that limit to the Schedule of Reductions to determine the reduced annual Graduate PLUS loan limit to use for loan disbursement.