Support Low-Cost College Loans for Students

MAINTAINING CURRENT LOW-FIXED RATE BENEFIT FOR CONSOLIDATION LOANS:
√ MAKES COLLEGE MORE AFFORDABLE FOR LOW & MIDDLE-INCOME STUDENTS
√ ENHANCES EDUCATIONAL OPPORTUNITIES

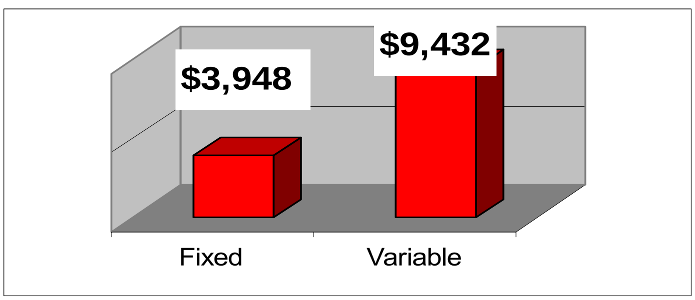
Background
This year, nearly 7 million students will borrow federal education loans to finance their college education. Consolidation provides student borrowers with benefits to make these loans more affordable.

Generally, student loan interest rates are *variable* rates, but when borrowers consolidate their loans, they lock in *fixed* interest rates. In addition to locking in a low fixed rate—thus saving thousands of dollars—consolidation allows student borrowers to eliminate the need for dealing with multiple lenders, extend their repayment period, or enroll in payment plans based on a percentage of their income.

A Republican backed big bankers' proposal would change current law and eliminate the previously agreed-upon low-fixed rate benefit for student borrowers who consolidate their loans. Eliminating this benefit would force student borrowers to pay thousands more for their college loans.

Students Pay Less for College Loans With a Low-fixed Interest Rate
According to the Congressional Research Service (CRS), the big banks' proposal to eliminate the current consolidation low-fixed rate benefit would force the typical student borrower with $17,000 in debt to pay an additional $5,500 in interest over the life of their loan.

Total Interest Paid on a $17,000 Student Loan: Fixed vs. Variable Rate



Source: Congressional Research Service (CRS) analysis, March 2004

Key Facts about Student Loan Debt

► Over the past decade the typical student loan debt has nearly doubled to $17,000, with 64 percent of students borrowing federal education loans to finance their college costs.

► Today, loans comprise nearly 70 percent of total federal student aid, while grants only account for 22 percent. Thirty years ago, grants accounted for about 70 percent of total federal student aid.

► A strong loan consolidation program with a low-fixed rate benefit is critical to making education accessible and to strengthening our economy:

- According to a recent GAO study, the average annual income of consolidation borrowers is $47,150.
- GAO also found that default rates for consolidation borrowers are 8 percent, compared to 24 percent for non-consolidation borrowers.
- According to 2002 recent Nellie Mae report, 38 percent of student borrowers delayed buying a home and 30 percent delayed purchasing cars due to student loan debt.

Democratic Staff, House Education & the Workforce Committee