

Q & A: New Student Loan Interest Rates & Loan Consolidation

What are the new student loan interest rates and for which loans do they apply?

The new interest rates for federal Stafford loans will fall to 3.37 percent for loans in repayment; and 2.77 percent for in-school loans. The new PLUS loan rates will fall to 4.17 percent.

How much money will student borrowers who consolidate under the new interest rates save?

This varies from one borrower to another. The typical borrower with \$18,900 in federal student loans, who pays back their debt over 10 years will save more than \$3,400 over the life of his loans.

When will the new rates become effective?

The new rates go into effect starting July 1, 2004 and last until June 30, 2005. If a borrower consolidates their loans they lock in a fixed rate for the life of their loan. Once a student has consolidated their loan, they cannot consolidate the same loan again.

Why are the rates changing?

According to law, each year the Department of Education resets the student loan interest rate based on the 91-day Treasury bill (T-bill). The formula for loans in repayment is the 91-day T-bill plus 2.3 percent; the formula for in school loans is the 91-day T-bill plus 1.7 percent. The formula for Parent Loans (PLUS) is the 91-day T-bill plus 3.10 percent.

Fixed vs. Variable Rate

A *fixed interest rate* is a rate that stays the same for the life of the loan.

A *variable interest rate* is a rate that changes periodically.

For example, the interest rate might be pegged to the cost of US Treasury Bills and be updated monthly, quarterly, semi-annually or annually. A consolidated loan provides a fixed rate for the life of the loan.

What is student loan consolidation and who is eligible?

Student loan consolidation provides borrower benefits which include: refinancing; combing multiple loans with multiple lenders into a single loan, with a single lender; reducing monthly payments; and, various on-time repayment incentives, which lower the overall costs of the students' loans.

Student and parent borrowers may be eligible to consolidate their federal student loans. For more specific information about eligibility visit the Department of Education's website at: <http://loanconsolidation.ed.gov>.

How are the interest rates on consolidation loans determined?

When a borrower consolidates their loans the interest rate is determined by the weighted average of the interest rates on their current loans rounded up to the nearest 1/8th of a percent. *For example, new loans at the expected new rate of 3.37 percent would be rounded up to 3.375 percent when consolidated.*

Will the consolidation benefit be eliminated?

This month, the Republican leadership introduced legislation (H.R. 4283) that will deny student borrowers the option of locking in a low-fixed rate on their college loans. As a result, students will be forced to pay thousands of dollars more for their college loans. This proposal follows in the footsteps of a 2002 Bush proposal—defeated by Democrats and students—that would have eliminated the low-fixed consolidation rate benefit.

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How do borrowers make payments on consolidated loans?

For borrowers who consolidate through the Department of Education's Direct Loan consolidation program, repayment typically begins 60 days after the first disbursement on the Direct Consolidated Loan. Borrowers will receive a monthly billing statement from the Direct Loan Servicing Center and borrowers can prepay the loan at any time without penalty. Borrowers who make payments through automatic banking can obtain an additional interest rate reduction of .25 percent.

What types of repayment options do borrowers have on consolidation loans?

Borrowers who consolidate through the Direct Consolidation Loan Program can choose from four different repayment options. The *standard repayment plan* sets up fixed monthly payments for a maximum of 10 years. The *extended repayment plan* sets up fixed monthly payments ranging from a 12-30 years depending on the total amount borrowed. These payments are smaller than in the standard plan because the repayment is drawn out over a longer period. The *graduated repayment plan* sets up monthly payments that increase every two years with the repayment plan ranging from 12-30 years depending on the total amount borrowed. The *income contingent repayment plan* sets up monthly payments that are based on a borrower's income, family size, and total loan debt, and are spread out over a term of up to 25 years.

Borrowers who consolidate through a FFEL (Federal Family Education Loan) program are usually eligible for similar repayment plans. Borrowers should check with their private lender for more information.

Can borrowers in the Direct Consolidation Loan Program change their payment plans?

Most borrowers can change their repayment plans at any time. There is no limit to the number of times that a borrower can change plans. However, borrowers who are on the income contingency plan must make three consecutive monthly payments before switching to another plan.

Can borrowers consolidate their loans while they are in-school or in their grace period?

Students who are about to graduate and recent graduates should consider consolidating during their in-school or grace period (the grace period is the time period immediately following graduation, usually six months, when a borrower does not have to make payments on their loans) to lock in an even lower interest rate over the life of their loan. Consolidating during the in-school or in-grace period can lower a borrower's interest rate by .6 percent. Students who consolidate while in-school may be eligible to lock in a 2.77 percent rate *and* retain their six-month grace period.

Can borrowers consolidate a defaulted loan?

Borrowers can consolidate defaulted loans but must meet additional requirements to be eligible. Direct loan borrowers are eligible to consolidate a defaulted loan if they have at least one direct loan, arrange their repayment under the Income Contingent Repayment Plan, or have made satisfactory repayment arrangements on the defaulted loan.

For more information borrowers should contact the Department of Education (1-800-557-7392 or <http://loanconsolidation.ed.gov>).