



U.S. DEPARTMENT OF EDUCATION



IMPORTANT INFORMATION FOR STUDENT BORROWERS ON U.S. TREASURY CHANGES TO FEDERAL STUDENT LOAN INTEREST RATES

May 30, 2006

In Fiscal Year 2006, more than \$60 billion in Federal student loans will be distributed to approximately 8 million student borrowers. For loans that were disbursed on or after July 1, 1998, but before July 1, 2006, new higher interest rates will go into effect on July 1, 2006. To lock in current, lower interest rates, borrowers under both the FFEL and Direct Loan programs may consolidate their loans before July 1.

The May 30, 2006, U.S. Treasury auction reset student loan interest rates.

- By law, interest rates on most existing Federal student loans are variable and are calculated based on a statutory formula that uses the interest rate of the 91-day Treasury bill set at the last auction in May of each year plus 1.70 percent for loans in an in-school, grace, or deferment status, and 2.30 percent for loans in a repayment status.
- The May 30, 2006, U.S. Treasury auction on the 91-day Treasury bill set the rate at 4.843 percent. As a result, the interest rate for the one-year period beginning on July 1, 2006, for most existing Federal student loans for borrowers who are in-school or who are in a grace or deferment status, will be set at 6.54 percent. Loans for borrowers in repayment will be set at 7.14 percent. This is an increase over the current year's rates of 4.70 percent and 5.30 percent, respectively.

The change will take effect July 1, 2006.

- This rate remains in effect until June 30, 2007. A new variable rate will be set next May that will be effective beginning on July 1, 2007.

Interest rates for new loans disbursed on or after July 1, 2006, will also change.

- Interest rates for new loans disbursed on or after July 1, 2006, will also change as a result of earlier legislative action in 2002 and 2006. Federal student loans first disbursed on or after July 1, 2006, will be fixed at a 6.8 percent interest rate for the life of the loan. The fixed 6.8 percent interest rate will apply to both in-school/grace and repayment periods.

Students, parents, and families may wish to consider loan consolidation options to help lessen the effects of these new interest rates.

- Interest rates on Federal Consolidation Loans, under both the Federal Family Education Loan (FFEL) and Direct Loan programs, are fixed at the weighted average of the loans being consolidated.
- As a result, borrowers who consolidate their student loans before July 1 can lock in the lower interest rate now in effect.
- Borrowers should contact their lenders directly about consolidation opportunities. Borrowers with Direct Loans may call the direct loan consolidation number at 1-800-557-7392.

Additional information on Federal financial aid for postsecondary education is available at: <http://studentaid.ed.gov>