



**A Summary of the July 1, 2006 Changes  
to the Student and Parent Loan Programs**

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# ***Student Loans: What Changes on July 1<sup>st</sup>?***

## **Background: Key Student Loan Programs**

### **1. Student Loans- the Stafford Loan Program**

Undergraduate students can borrow money for education through the federal Stafford Loan program. There are two ways a student can borrow:

- The Direct Loan program (DL), where the Department of Education loans money directly to students, and
- The Federal Family Education Loan program (FFEL), where students borrow money through independent lenders.

Regardless of whether a student borrows from the DL or FFEL program, they may receive a subsidized or unsubsidized loan.

- In a subsidized loan, the Department of Education will pay the interest while the student is in school or in a deferment period. Subsidized loans are awarded based on financial need.
- In an unsubsidized loan, the interest accrued during school or in deferment periods are added to the amount of the loan, and must be repaid by the borrower.

### **2. Parent Loans- the PLUS Loan Program**

Parents of undergraduate students can borrow money through the federal Parent Loans for Undergraduate Students (PLUS) program. Like student loans, PLUS loans are offered through both the DL and FFEL programs. Repayment begins within 60 days of the loan, and the government does not subsidize interest payments.

### **3. Consolidation Loans**

Any borrower can consolidate his or her existing Stafford or PLUS loans to only have one monthly payment, lock in a low fixed rate, and extend the repayment period of the loans, decreasing the monthly payment. In most cases, borrowers may only consolidate their loans once.

Borrowers may consolidate if they are still in the grace period, locking in even lower interest rates than if they waited to consolidate when in the repayment period. However, lenders are not required to honor the grace period and may request that payments begin immediately.

Borrowers may now consolidate with any lender, not just the one through which they originally took the loans.

# ***Student Loans: What Changes on July 1<sup>st</sup>?***

## **What Happens to New Loans on July 1?**

**Due to the \$12 billion Republican Raid on Student Aid, student and parents borrowing money for college will face some real changes on July 1, 2006.**

Prior to July 1, 2006, interest rates on student and parent loans changed each year and were based on the last 91-day T-bill in the month of May. Currently, interest rates for students are 5.3%, while rates for parents are 6.1%.

### **After July 1, 2006:**

- Students borrowing any new Stafford loans will face a *fixed* interest rate of 6.8%.
- Parents borrowing any new PLUS loans through the FFEL program will face a *fixed* interest rate of 8.5%.
- Due to a drafting error in the Higher Education Reconciliation Act, the 8.5% interest rate hike for parent borrowers only affects parents borrowing from the FFEL program. Parents borrowing any new PLUS loans from the DL program will face a new *fixed* interest rate of 7.9% on July 1.
- Additionally, beginning July 1, graduate students will be eligible to borrow through the PLUS program.

Rates	NEW LOANS			
	STUDENT LOANS		PLUS LOANS	
	<i>DL</i>	<i>FFEL</i>	<i>DL</i>	<i>FFEL</i>
<b>Current</b>	5.30%	5.30%	6.10%	6.10%
<b>On or After July 1, 2006</b>	6.80%	6.80%	7.90%	8.50%

## **What Happens to Consolidation Loans on July 1?**

*Consolidation loan rates are based on the weighted average of all of the interest rates on the loans at the time of consolidation, rounded up to the nearest one-eighth of a percent. Therefore, after July 1, 2006 the rate for consolidation loans will continue to change based on the variable interest rate of loans taken out prior to July 1, 2006.*

Currently, borrowers can consolidate their student loans at a rate of 5.3%, or 4.75% if they are still in a grace period. Parent borrowers can consolidate their loans at a rate of 6.1%.

# Student Loans: What Changes on July 1<sup>st</sup>?

## After July 1, 2006:

- The rate on most new student consolidation loans will be 7.14%, or 6.54% if the borrower is in a grace period.
- The rate on most new parent consolidation loans will be 7.94%.

Rates	CONSOLIDATION LOANS	
	STUDENT LOANS	PARENT LOANS
Current	5.30%	6.10%
On or After July 1, 2006	7.14%	7.94%

For more information, visit the Consolidation Fact Page:

<http://edworkforce.house.gov/democrats/studentloanconsolidation.html>

## How Would the Democratic Plan Help Students?

Congressional Democrats introduced a bill to cut interest rates in half on new education loans.

H.R. 5150, the **Reverse the Raid on Student Aid Act**, puts students and their families first by **making college more affordable by:**



- **Cutting interest rates in half for the borrowers in most need—on subsidized student loans—from a fixed rate of 6.8% to a fixed rate of 3.4%; and,**
- **Cutting rates on parent loans for undergraduate students and on loans for graduate students from a fixed rate of 8.5% to a fixed rate of 4.25%.**

Under this bill the typical undergraduate student borrower, with \$17,500 in debt, would save \$5,600 over the life of his or her loans.

For more information on the Reverse the Raid on Student Aid bill, visit:

<http://edworkforce.house.gov/democrats/pdf/reverseraid.pdf>

To see how the Democratic plan affects student and parent borrowers, visit the Student Debt Calculator:

<http://edworkforce.house.gov/democrats/calculator.html>