How the Student Loan Calculator Works

The College Access and Cost Reduction Act will <u>cut interest rates in half</u> for undergraduate students with subsidized student loans – those in most financial need – over the next four years. The plan will begin by cutting interest rates from 6.8% to 6.0% on July 1, 2008, and rates will continue to decrease until they reach 3.4% in 2011.

Cutting Interest Rates in Half: Phase-In Schedule
Interest rate reductions will occur on July 1 of each year

2008	2009	2010	2011
6.0	5.6	4.5	3.4

Cutting interest rates in half – to a fixed rate of 3.4% - will save a student with $13,800 in subsidized loan debt approximately $4,400 over the life of their loan.

For more information on H.R. 2669, click here.

Calculations and Assumptions

The Student Loan Calculator assumes a fixed rate for the life of your loan. For simplicity's sake, it also assumes that minimum payments are made throughout the life of the loan. This calculator uses a standard compounding interest calculation.

$$\frac{[\text{ loan amt} * (\text{rate}/12)\,] * [\,\{1 + (\text{rate}/12)\}^{\text{\# of months to repay}}\,]}{[\,\{(1 + (\text{rate}/12)\,)^{\text{\# of months to repay}}\} -1\,]}$$

For example, the monthly payment for an average 15 year loan (180 months) of $13,800 with a 6.8% interest rate:

$$\frac{[\,17{,}500 * (0.068/12)\,] * [\,\{1 + (0.068/12)\}^{180}\,]}{[\,\{(1 + (0.068/12)\,)^{180}\} -1\,]} = \$122.50$$

The total repayment on the loan is calculated by multiplying the monthly payment by the number of months required to repay the loan. For example, the loan calculated above has a total repayment of $22,050.07 ($122.50 * 180 months).

The average interest rate for the life of the loan is the average rate a student would pay upon graduation. Further, the Student Loan Calculator also assumes equal borrowing in each year of school attendance. Assuming a 4-year attendance, average interest rates are below:

Year Starting School	Average Interest Rate
2005	6.6
2006	6.3
2007	5.7
2008	4.9
2009	4.2
2010	3.7
2011 & after	3.4

All calculations are an estimate based on the above equations, and may not reflect the actual amount computed by your lender.