THE PROJECT ON STUDENT DEBT

NEWS RELEASE
June 23, 2010

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July 1 Brings Important Changes to Federal Student Loans

Improvements to Income-Based Repayment, Lower Interest Rates, 100% Direct Loans, and More

July 1 will bring several significant changes to federal student loans that benefit new and current borrowers. Some interest rates will decrease, and updated rules for Income-Based Repayment (IBR) will bring fair treatment to married borrowers and those who owe more than when they finished school. Also, all federal student loans made on or after July 1 will be Direct Loans, which come straight from the U.S. Department of Education. This will save taxpayers tens of billions of dollars by eliminating a parallel program that subsidized private lenders to make the same federal loans.

"These changes are great news for students and borrowers," said Lauren Asher, president of the Institute for College Access & Success, which runs the Project on Student Debt. "IBR will work much better for married borrowers and those whose debt has grown since graduation. Many borrowers, both students and parents, will benefit from lower interest rates. And it will finally be clear that federal student loans come from the government, while much riskier private student loans come from banks and other private lenders."

IBR first went into effect in 2009 and has helped tens of thousands of student loan borrowers reduce their monthly payments. Hundreds of thousands more borrowers are likely eligible for the program, including some who would have been ineligible or faced higher payments because of two regulatory glitches that will be fixed on July 1:

1. When married couples both have federal student loans, they will no longer face higher IBR payments than their unmarried peers. For married borrowers who file their taxes jointly, lenders will factor in the couple's total federal student loan debt, as well as their total income, to calculate payments. Originally, IBR did not recognize that joint income has to cover *both* spouses' federal loan payments, resulting in payment requirements up to twice what two equivalent single people would have to pay.

2. IBR eligibility will be based on *either* the balance when the loan first entered repayment *or* on the current loan amount, whichever is greater. This will allow borrowers whose loan balances have increased (often due to accrued interest during periods of deferment or forbearance) to qualify based on what they actually owe.

The Project on Student Debt created **www.IBRinfo.org** to help consumers learn about IBR and estimate their eligibility and monthly payments under the program. On July 1, the site's IBR calculator will reflect these important changes.

Other changes taking effect on July 1 will make need-based aid more helpful and affordable. The maximum Pell Grant increases by $200 to $5,550, reducing current students' need to borrow. The interest rate on new need-based subsidized Stafford loans will drop from 5.6 percent to 4.5 percent for undergraduates, and remain at 6.8 percent for graduate students. Borrowers who already have Stafford loans with variable rates will also see decreases in their interest rates.

The switch to all Direct Loans will also mean lower interest rates for some parents. Until July 1, federal Parent PLUS loans had rates of either 7.9% or 8.5%, depending on which federal loan program a college chose. With all new Parent PLUS loans coming through the Direct Loan program, the rate for all parents will be 7.9%.

For more information, see the Project on Student Debt's Borrower's Guide to July 1, 2010, and a chart with Federal Student Loan Terms for 2010-2011.

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An independent, nonprofit organization, the Institute for College Access & Success works to make higher education more available and affordable for people of all backgrounds. The Institute's Project on Student Debt works to increase public understanding of rising student debt and the implications for our families, economy, and society. For more information see www.projectonstudentdebt.org and www.ticas.org.