THE PROJECT ON STUDENT DEBT

A Borrower's Guide to July 1, 2009

The first of July is an important date for people with federal student loans: it's when interest rates and other terms change each year. On July 1, 2009, Income-Based Repayment becomes available for the first time; Pell grants get bigger; and the interest rates on new Subsidized Stafford loans and existing variable-rate loans go down.

This is a guide to what college students, their parents, and people already repaying their student loans need to know about the changes taking place on July 1, 2009. There is also a one-page summary of Federal Student Loan Terms for 2009-10.

Income-Based Repayment Becomes Available on July 1

- Income-Based Repayment (IBR) can make your loan payments more affordable by capping your monthly payments based on your income and family size. The program covers almost all federal loans made to undergraduate and graduate students, past, present, or future, in cluding both Direct Loans and federal loans from a private lender like Sallie Mae or Citibank. And any debt and interest remaining after 25 years of payments will be forgiven.

- If you work in a government, nonprofit, or other public service job, your federal student loans could be forgiven in as few as 10 years of IBR or other qualifying payments.

- More information is available at www.IBRinfo.org.

Pell Grant Maximum Award Raised to $5,350

- For the 2009-10 award year, the maximum Pell Grant award has been raised to $5,350. (For the 2008-09 award year, the maximum award was $4,731.)

- Pell Grants are need-based grants from the federal government, and go mostly to students with family incomes below $50,000. To apply for a Pell Grant, start by filling out the Free Application for Federal Student Aid (FAFSA) at www.fafsa.ed.gov.

Rates Go Down on New Subsidized Stafford Loans

- The fixed interest rate for new Subsidized Stafford loans drops from 6.0% to 5.6% for undergraduates. Subsidized Stafford loans go mostly to students with family incomes under $80,000, and the government pays the interest while you're in school or in deferment. Apply for Stafford loans at www.fafsa.ed.gov.

- Fees for all new Stafford loans drop by half a percentage point, to 1.5% of the amount borrowed. This fee decrease applies to new Subsidized and Unsubsidized Stafford loans for both undergraduate and graduate students.

Borrowers with Variable-Rate Loans Can Lock in New Low Rates

- All unconsolidated Stafford loans that originated before July 1, 2006, have variable interest rates that reset each year. This year, the variable rate is going down to 2.48% on July 1. That's two percentage points less than the current low rate of 4.21%! For 2009 graduates, the news is even better. If you consolidate during your six-month grace period, you can lock in an even lower rate, 1.88% on variable-rate federal loans.

- You can lock in these low rates by consolidating variable-rate loans after July 1. When you consolidate multiple loans, the new fixed rate will be a weighted average of the rates of the consolidated loans, rounded to the nearest eighth of a percentage point. To qualify for Public Service Loan Forgiveness, be sure to consolidate into the Direct Loan program.

Links to More Information

- Learn more about Income-Based Repayment, Public Service Loan Forgiveness, and whether you qualify at www.IBRinfo.org.

- Not sure what kind of loan you have, or whether you have already consolidated? Check the National Student Loan Data System to be sure. If you can't remember your pin number, you can get a new one.

- See an overview of federal loan terms and rates in 2009-10.

- See some pros and cons of loan consolidation, or visit FinAid.org for more information about consolidation.