the institute for college access & success

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July 1 Brings Lower Interest Rates on New Federal Student Loans

Rates projected to rise sharply in 2016-17; time for Congress to revisit design of federal loans

(Oakland, CA) – July 1 is an important date for students and families: it's when most changes to federal student aid – both loans and grants – go into effect. For the year starting July 1, 2015, new federal loans for undergraduates, graduate students, and parents will have lower interest rates than loans taken out the year before, and the maximum Pell Grant will be higher. To help inform college borrowing decisions, The Institute for College Access & Success (TICAS) has a new easy-to-read chart with 2015-16 interest rates, loan amounts, and other useful information for the most common types of federal loans.

Changes coming soon include:

- On July 1, the maximum Pell Grant will be $5,775 (up from $5,730). Pell Grants help more than eight million lower income students pay for college and limit how much they need to borrow.
    - Still, the new maximum grant will cover less than one-third of the cost of attending a public four-year college, the smallest share in over 40 years.

- On July 1, the fixed rates for *new* federal loans will be lower than the rates for loans issued last year.
    - Stafford loans for undergraduates, subsidized and unsubsidized: 4.29% (down from 4.66% for loans issued in 2014-15).
    - Stafford loans for graduate students: 5.84% (down from 6.21% for loans issued in 2014-15).
    - Parent and Graduate PLUS loans: 6.84% (down from 7.21% for loans issued in 2014-15).

- On October 1, origination fees will decline slightly for new federal loans.
    - For loans issued October 1, 2015 through September 30, 2016, fees will be 1.068% of principal for all Stafford loans (down from 1.073%), and 4.272% for all PLUS loans (down from 4.292%).

"Lower interest rates are great news for students who need loans this coming school year," said TICAS president **Lauren Asher**. "However, the Congressional Budget Office (CBO) projects much higher rates next year. Federal student loans will still be the safest way to borrow, with fixed rates, income-based repayment plans, and important consumer protections like discharges when schools close. But Congress should act to make student loans simpler and more affordable."

In 2013, Congress changed the way interest rates on federal student and parent loans are set. Rates for new loans are now based on the 10-year U.S. Treasury note rate in the spring of each year, plus a set increment for each type of loan. The rate is then fixed for the life of the loan. Rates for new loans rose last year (2014-15), are declining this year (2015-16), and are projected to rise sharply next year (2016-17) and to continue rising, according to CBO. For example, next year the rate on new Stafford loans for graduate students is expected to top 6.8% – the highest rate in 15 years (since 2000-2001).

"With the Higher Education Act up for reauthorization, now is the time for Congress to revisit the design of the federal student loan program, from interest rates to repayment plans. Today's students and tomorrow's need to be able to count on affordable loans, with streamlined and manageable repayment options," said **Asher**.

TICAS' 2013 white paper includes specific recommendations for improving the federal loans by keeping them affordable and better targeting their benefits, and by simplifying and improving repayment options. The paper also spells out broader reforms to increase college affordability and completion.

NOTE: For more information about federal student loans for the coming school year, please see our new summary chart, Federal Student Loan Terms for 2015-16.

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