July 1, 2008 - Students To See Significant Savings on Federal College Loans

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RELEASE

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College Loans

Federal Student Loans Rate Cut Takes Effect Today

Washington, DC – Congresswoman Louise M. Slaughter (D-NY-28), Chairwoman of the House Committee on Rules, announced that beginning today, interest rates on need-based federal student loans will drop, making these loans cheaper for millions of college students.

Under the College Cost Reduction and Access Act, which was signed into law last September, interest rates on need-based (subsidized) federal student loans will drop from 6.8 percent to 6.0 percent today. This rate drop is the first step towards cutting these interest rates in half. Over the next few years, rates will continue to decrease until they reach 3.4 percent to make federal loans more affordable for millions of low- and middle-income students.

“A college education should be affordable and accessible to every American,” said Rep. Slaughter. “This rate cut will ensure that millions of hardworking American families are able to send their children to college, even during this period of economic turbulence.”

This decrease in the federal loan rate will provide significant savings for borrowers over the life of the loan. In New York, the average four-year college student using a need-based student loan to start school this fall will save about $2,660 over the life of his or her loans.

BACKGROUND

The College Cost Reduction and Access Act of 2007, signed into law on September 27, 2007, provides the single largest increase in college aid since the GI bill at no new cost to taxpayers.

Today federal interest rates on subsidized federal Stafford Loans for undergraduates will drop to 6% from the previous rate of 6.8%.

Rates on subsidized federal Stafford Loans will continue to drop over the next few years:

- to 5.6% for loans disbursed between July 1, 2009 and June 30, 2010;

- to 4.5% for loans disbursed between July 1, 2010 and June 30, 2011; and

- to 3.4% for loans disbursed on or after July 1, 2011.

Federal loan interest rates provide far greater savings than more expensive private loans, whose interest rates can run as high as 19%. Furthermore, private loans often have variable rates that can result in unexpectedly high monthly payments. In contrast, interest rates on federal loans will stay fixed at the same low rate over the life of the loan.

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