

Date: July 2, 2013

Subject: Student Loan Interest Rates Double

When Congress failed to reach a deal before its Fourth of July recess, the interest rate doubled for all new federally subsidized student loans taken out on and after July 1. **These loans—called subsidized Stafford loans—now have an interest rate of 6.8 percent, up from 3.4 percent.** It is important to note that the change does *not* impact previous subsidized loans taken out before July 1.

Subsidized Stafford loans are different from other federal loans in that the federal government pays a subsidy so that students do not pay interest while in school. These loans are only available to undergraduates with demonstrated financial need. Unsubsidized Stafford loans—which accrue interest throughout school and have the same interest rate as the new subsidized loans (6.8 percent)—are still available to all students.

President Obama, congressional Republicans, and some Democrats have proposed linking loan interest rates with annual market conditions, rather than letting Congress fix the rates. However, the details of such a plan—rate caps, annual rate variability, etc.—have proven to be sticky issues on which legislators have yet to agree.

It is possible that students won't actually have to pay the increased rates—at least not yet. The increase was originally scheduled to occur a year ago; but, thanks to an election-year alliance of student advocates and the Obama administration, the rate increase was delayed by a year. **Many congressional Democrats are hoping to enact a similar one-year fix that would temporarily adjust/lower the interest rates retroactively.** As the lender of the student loans, it is within the federal government's power to apply such a solution after the fact. The Senate is expected to decide whether to pursue such a fix on July 10. Political analysts say such a measure will likely face a Republican filibuster.

If Congress does not pass a remedial bill before its August recess, the impact on students will be substantial. Over 7 million students nationwide are expected to take out subsidized Stafford loans in the coming academic year. For many of those borrowers, the rate hike is projected to add approximately \$1,000 in interest over the life of a loan. This past academic year (2012-13), approximately 14,000 UW undergraduates borrowed \$66 million in subsidized Stafford loans.

If the new interest rates persist, the UW Office of Financial Aid still recommends that students pursue federal loan options before turning to private lenders. Federal loans typically provide students with better consumer protections and repayment options than their private counterparts. For example, the federal Income-Based Student Loan Repayment Program—which pegs monthly loan payments to no more than 10 percent of a borrower's adjusted gross income—can help alleviate some of the burden associated with the new, higher rates. Unfortunately, as many UW students already work throughout the year to help pay for college, few other options exist to help students replace the college expenses covered by the federal loan programs.

A [webpage](#) published by the Consumer Financial Protection Bureau provides some additional information and answers several frequently asked questions about the changes. We will continue to monitor the situation and will provide updates at the [Federal Relations website](#) and the [OPBlog](#).

For more information, please contact: [Sarah Castro](#) (Federal Relations), [Kay Lewis](#) (Financial Aid) or [Becka Johnson](#) (Planning & Budgeting).