SAVE OUR STUDENTS
from College Loan Debt

Today, the average college student graduates with over $17,000 in loan debt for their education. As college tuition climbs each year, that debt load is only expected to grow. But rather than helping make higher education more affordable for today's students, some in Congress are pushing legislation that actually would add to graduates' student loan debt burden.

The legislative proposal (H.R. 4283) would eliminate graduates' ability to lock in low, fixed-interest rates when they consolidate their student loans. This ability to lock in a low rate recently has been enjoyed by millions of homeowners who have refinanced their home loans, but under the bill, students would have to consolidate their loans at a variable rate, which is expected to go up in coming years.

Some of the other provisions in the bill cap the maximum Pell Grant award at $5,800, preventing the award from keeping pace with inflation or the increases in college tuition prices, and raising the 6.8 percent interest cap on non-consolidated loans to 8.25 percent.

Below are some frequently asked questions about the federal student loan program and why a fixed rate is important to graduates.

Q: What difference does a variable interest rate vs. a fixed interest rate make to the average student?

A: If this benefit is eliminated, the average student borrower would pay $5,500 more in interest costs over the life of loan repayment, according to the Congressional Research Service, as borrowers would be forced to pay variable rates which are expected to rise in the future. Currently, student borrowers can consolidate and lock in rates as low as 2.88 percent, saving thousands of dollars in interest paid.

Q: If students can save money by locking in a fixed rate, why are some politicians pushing for a variable rate?

A: Lending institutions and banks are pressuring Congress to roll back the fixed interest rate in loan consolidation, so that lenders can charge higher variable rates, avoid the fees that consolidation lenders must pay, and protect their student loan portfolios from the consolidation market. Proponents of HR 4283 claim the government funds currently used to subsidized fixed-rate loans would be better allocated to students rather than graduates. However, lending institutions, not graduates, receive subsidies from the Federal Consolidation Program to maintain their profit margins on fixed loans. The proposed variable rate would remove the responsibility for lender profit margins from the government, and place it on graduates. Also, HR 4283 does not guarantee that any savings from variable rate loans the government may realize would be allocated to students.

Q: Why are Pell Grants a key ingredient to lowering student debt?

A: Federal Pell Grants are awarded to students demonstrating financial need to pay for college tuition, but unlike loans, Pell Grants do not have to paid back. Pell Grants are the most direct way of lowering student debt and reducing the costs of a college education. H.R.4283 prevents the maximum Pell Grant award from keeping pace with inflation and the increasing costs of college. Pell Grants in today's dollars are worth $500 less than they were 30 years ago. If the cap on the maximum Pell Grant award is allowed, needy students will face a greater amount of student loan debt.

How does raising the interest rate cap on non-consolidated loans affect students?

A: For those students who choose not to consolidate their loans, they could face an 8.25 percent interest rate, rather than the current 6.8 percent cap on their variable interest rate loans. This change could cost students thousands of dollars more in interest.

What are the benefits of consolidating my student loans?

A: Currently, the benefits of consolidating your student loans include paying only one lender, lowering your monthly bill, and most important, locking in a historically low interest rate. Furthermore, many lending institutions will offer even lower interest rates for automatic withdrawal from your checking account and making a certain amount of consecutive payments.

If all your student loans come from the same lending company, then you must consolidate with that company under a legislative rule called the Single Lender rule. However, if you have different lenders, you may compare lending institutions and find the one that offers you the best incentives to lower your interest rates.

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