



National Association for College Admission Counseling

Guiding the way to higher education

NACAC Policy Brief: Student Loans

Rise to Prominence: The Role of Loans in Financing Postsecondary Education

Students have become more dependent on loans to help cover the cost of attending postsecondary education over the past 20 years. As a percentage of total aid, loans have surpassed grants as the primary form of financial assistance for postsecondary education, composing just over half of the aid students use to pay for college. Additionally, student loan debt burden has increased over a corresponding time period. The average student loan debt nearly doubled from 1992 to 2004. In 1992-93, the average cumulative federal student loan debt was \$9,188 (PIRG Higher Education Project, "The Burden of Borrowing," March 2002). In 2003-04, the average cumulative federal student loan debt was nearly \$20,000 (The Institute for College Access and Success, Project on Student Debt, 2005).

As the nation grapples with higher costs of postsecondary education, federal lawmakers continue to seek ways to ensure that students receive federal assistance to ensure continued access. Since loans have so thoroughly permeated higher education financing, federal student loan legislation is the turf on which the financial assistance battle is increasingly fought.

Summary of Loan Programs and Definitions:

Stafford Loans

Stafford Loans are available for undergraduate and graduate students and come from one of two sources, direct from the federal government or from private lenders. *Direct Stafford Loans* are made by the U.S. Department of Education. You repay a Federal Direct Stafford Loan to the U.S. Department of Education. *Federal Stafford Loans* are made through Federal Family Education Loan (FFEL) Program. While FFEL funds come from private lenders, such as banks and credit unions, they are subsidized and supported by the U.S. Department of Education. You repay a FFEL Stafford Loan to the private lender that made the loan or to its designated agency. Whether you receive a Direct or FFEL Stafford Loan depends on the program in which your school participates. In either case the terms of the loan (loan amounts, interest rate, and other benefits) are generally the same. For both the Direct and FFEL programs there are two types of Stafford Loans, subsidized and unsubsidized.

A **subsidized** loan is awarded on the basis of financial need, as determined by the information you submit on the Free Application for Federal Student Aid (FAFSA). If you are eligible for a subsidized Stafford loan you will not be charged interest while you are in school on an at least half-time basis, during a grace period of up to six months after you are no longer enrolled on at least a "half-time" basis, or during certain defined deferment periods. The Federal government pays (subsidizes) the interest during these periods.

An **unsubsidized** loan is not awarded on the basis of need. But you still must apply using the FAFSA. For unsubsidized loans, you will be charged interest from the time the loan is disbursed until it is paid off in full. However, you can choose to defer payment of interest while you are in school and during any grace or deferment period. However, if you allow interest to accrue (accumulate) during these periods, it will be capitalized. This means that interest will be added to the principal amount of your loan, and additional interest will be based on that higher amount.

Maximum Loan Amount: \$2,625 to \$8,500 annually (depending on your grade level, your status as a dependent or independent student, your status as an undergraduate or a graduate student, and your total cost of attendance).

Interest Rate: The interest rate is variable (adjusted annually on July 1st) but does not exceed 8.25 percent. You'll be notified any time the variable rate changes. Visit the Department of Education online for the current Stafford Loan interest rate.

Maximum Loan Length: Thirty years, depending on amount borrowed and repayment plan chosen. There are a number of repayment plans offered through the Direct and FFEL programs. Read the Repaying Your Student Loan online for more information about repayment.

Frequency of Payments: monthly or quarterly. After you graduate, leave school, or drop below half-time enrollment, you have a six-month grace period before you begin repayment.

Prepayment Penalties: None.

Fees: You'll pay a fee of up to four percent of the loan, deducted proportionately from each loan disbursement. Because of this deduction, you'll receive slightly less than the amount you're borrowing.

Perkins Loans

Federal Perkins Loans help financially needy undergraduate students and graduate students meet the cost of postsecondary education. The award is made by the school based on the availability of funds. A Federal Perkins Loans carries a fixed interest rate (currently five percent) and must be repaid beginning after a nine-month grace period following the date when the student is no longer enrolled on at least a half-time basis.

Maximum Loan Amounts: \$4,000 annually for undergraduate students (up to \$20,000 total as an undergraduate), and \$6,000 annually for graduate students (up to \$40,000 total, including any Perkins Loans you had as an undergraduate student). Please note that you will not automatically receive the maximum amounts given here. Annual loan amounts depend on when you apply, your level of financial need, and the amount of Perkins Loan funds your school is allocated from the U.S. Department of Education.

Interest Rate: Fixed at five percent.

Maximum Loan Length: Ten years.

Frequency of Payments: Monthly or quarterly. After you graduate, leave school, or drop below half-time enrollment, you have a nine-month grace period before you begin repayment. Those in the military might have longer.

Prepayment Penalties: None.

Fees: None.

PLUS Parent Loans

PLUS Loans come from one of two sources, the federal government or private lenders. *Direct PLUS Loans* are made by the U.S. Department of Education. You repay a Direct PLUS Loan to the U.S. Department of Education. *Federal PLUS Loans* are made through Federal Family Education Loan (FFEL) Program. While FFEL funds come from private lenders, such as banks and credit unions, they are subsidized and supported by the U.S. Department of Education. You repay a FFEL PLUS Loan to the private lender that made the loan or to its designated agency. Whether you receive a Direct or FFEL PLUS Loan depends on the program in which your school participates. In either case the terms of the loan (loan amounts, interest rate, and other benefits) are generally the same.

The school applies PLUS loan funds toward your child's educational costs such as tuition, fees, and room and board. If any loan funds remain after school charges are paid, you will receive the remaining amount

from the school, unless you authorized the school to release the funds to your child. Any funds you or your child receives must be used to pay the child's educational expenses.

Maximum Loan Amount: Your child's cost of attendance minus other financial aid. For example, if your child's cost of attendance is \$6,000, and he or she receives \$4,000 in other financial aid, you can borrow up to \$2,000 in PLUS Loans.

Interest Rate: The interest rate is variable (adjusted annually on July 1), but it does not exceed nine percent. You'll be notified any time the variable rate changes. Visit the Department of Education online for the current PLUS Loan interest rate.

Maximum Loan Length: Up to thirty years, depending on the amount borrowed and the repayment plan chosen. There are a number of repayment plans offered through the Direct and FFEL programs. Read the Repaying Your Student Loan online for more information about repayment.

Frequency of Payments: Monthly or quarterly. Generally, the first payment is due within sixty days after the loan is fully disbursed. You must begin repaying both principal and interest while the student is in school.

Prepayment Penalties: None.

Fees: You will pay a fee of up to four percent of the loan, deducted proportionately each time a loan disbursement is made. Because of this deduction, you'll receive slightly less than the amount you're borrowing.

Consolidation Loans

Consolidation Loans are available to most borrowers of Federal education loans and come from one of two sources, the federal government or private lenders. **Direct Consolidation Loans** are made by the U.S. Department of Education. You repay a Federal Consolidation Loan to the U.S. Department of Education. **Federal Consolidation Loans** are made through Federal Family Education Loan (FFEL) Program. While FFEL funds come from private lenders, such as banks and credit unions, they are subsidized and supported by the U.S. Department of Education. You repay a FFEL Consolidation Loan to the private lender that made the loan or to its designated agency. Whether you receive a Direct or FFEL Consolidation Loan depends on which program you choose. In either case the terms of the loan (loan amounts, interest rate, and other benefits) are generally the same.

Maximum Loan Amount: None

Interest Rate: Weighted average interest rate on the loans being consolidated, rounded to the nearest one-eighth of 1%, not to exceed 8.25%. Currently, the interest rate is fixed for the life of the loan. To get an estimate of your interest rate, go to the Online Calculator.

Maximum Loan Length: Thirty years.

Frequency of Payments: Monthly or quarterly.

Prepayment Penalties: None

Fees: None

Summary of Current Legislative or Regulatory Initiatives

In 2007, the federal government will consider a number of policy proposals concerning student loans. Among those most likely to receive legislative or administrative attention are:

- A Democratic proposal, to be considered in the 'first 100 hours' of the 110th Congress, to cut the interest rates on new student and parent loans for higher education in half;

- A proposal by Senator Edward Kennedy (D-MA), entitled the “Student Loan Sunshine Act,” that would require colleges and lenders to provide detailed information about arrangements they have entered. At its December meeting, the Department of Education’s negotiated rulemaking committee discussed a potential ban on such arrangements, though there is no specific proposal to enact such a ban at this date.
- The Department of Education’s negotiated rulemaking committee will also discuss a proposal to simplify the student loan repayment process. Included on the committee’s agenda is a proposal by The Institute on College Access and Success (TICAS) Project on Student Debt to create a more standardized repayment system that would structure loan repayment for those facing economic hardship to better account for income, family situation, and other debt. TICAS’ proposal has been endorsed by NACAC.
- Congress may consider legislation, such as the Student Aid Reward Act, or STAR Act, sponsored in 2006 by Representatives George Miller (D-CA) and Tom Petri (R-WI) and by Senators Edward Kennedy (D-MA) and Gordon Smith (R-OR). The STAR Act would provide financial aid incentive for colleges to participate in the more efficient of the two loan programs, FFEL or Direct loans. NACAC endorsed the STAR Act in 2006. Representative Petri is also expected to introduce legislation that would create a secondary direct loan, which would be repaid through a paycheck deduction similar to federal income taxes.
- Congress or the Department of Education may act on a September 2006 Inspector General (OIG) report that accused the Department’s Office of Federal Student Aid (FSA) of lax oversight of the student loan industry. The OIG report noted that FSA “emphasized partnership over compliance in dealing with guaranty agencies, lenders, and servicers.”

Recent Reports and Resources on Student Loans

“Student Financing of Undergraduate Education, 2003-04,” U.S. Department of Education, National Center for Education Statistics, NCES 2006-186, August 2006.

“The Future of Private Loans: Who is Borrowing, and Why?,” The Institute for Higher Education Policy, December 2006.

“Review of Financial Partners’ Monitoring and Oversight of Guaranty Agencies, Lenders, and Services,” Final Audit Report, U.S. Department of Education, Office of Inspector General, September 2006.

“Trends in Student Aid, 2005-06,” College Board, October 2006.

“Federal Family Education Loan Program: More Oversight is Needed for Schools that are Lenders,” U.S. Government Accountability Office (GAO), GAO-05-184, January 2005.

“Empty Promises: The Myth of College Access in America,” U.S. Advisory Committee on Student Financial Assistance, June 2002.

Web Links

GovLoans.gov
<http://www.govloans.gov>

Office of Federal Student Aid: Student Portal
<http://studentaid.ed.gov/PORTALSWebApp/students/english/index.jsp>

Information for Financial Aid Professionals
<http://ifap.ed.gov>

Federal Direct Loans
<http://www.dl.ed.gov>

The Institute for College Access and Success: Project on Student Debt
<http://projectonstudentdebt.org/>

NACAC Position Statement on Student Loans

The National Association for College Admission Counseling recognizes the important role that student loans have played in increasing college access over the past four decades. As a policy lever, federally-subsidized loans have opened doors to financial resources that would not otherwise be available to low- and moderate-income students. While NACAC's primary policy goal is to increase need-based grant aid for postsecondary education, the association supports the efficient and effective operation of the federal student loan programs. In the 110th Congress, NACAC will endorse the following legislative initiatives regarding students loans:

- Project on Student Debt proposal to create a more standardized repayment system that would structure loan repayment for those facing economic hardship to better account for income, family situation, and other debt.
- Student Aid Reward Act, or STAR Act, which would provide financial aid incentives for colleges to participate in the more efficient of the two loan programs, FFEL or Direct loans.
- Legislative proposal advanced by majority Democrats to reduce the interest rates on student loans by half.

About NACAC

NACAC is an Alexandria, VA-based education association of more than 9,200 secondary school counselors, independent counselors, college admission and financial aid officers, enrollment managers, and organizations that work with students as they make the transition from high school to postsecondary education. The association, founded in 1937, is committed to maintaining high standards that foster ethical and social responsibility among those involved in the transition process, as outlined in the NACAC Statement of Principles of Good Practice. More information about NACAC is available at www.nacacnet.org. For more information, contact David Hawkins, NACAC Director of Public Policy, at (703) 836-2222 or dhawkins@nacac.com.