

MANAGING YOUR STUDENT LOANS:

Upcoming College Affordability Benefits Every Borrower Should Know About

The cost of paying for college is becoming even more burdensome for Americans in this economy. While families are losing income, benefits and jobs, college tuition prices continue to rise. The average student now graduates with over \$22,000 in total student debt, including federal and private student loans.

This year's class of graduating college seniors also enters one of the toughest jobs markets in decades for recent graduates. Of the 1.2 million jobs lost last year, 60 percent were held by workers aged 25 or younger. Their wages may also suffer: Economists have found that workers who graduated during recessions typically earn less over a lifetime than workers who graduate in better economic times. Many borrowers already spend high percentages of their paychecks making student loan payments – and it's only likely to get worse.

Given these challenges, it's critical for current college students, new or soon-to-be graduates, and workers to know about new benefits going into effect July 1 that will make student loan payments manageable for millions of Americans.

(These benefits were signed into law in 2007 as part of the College Cost Reduction and Access Act.)

They include:

- ✓ **Cheaper interest rates on need-based (subsidized) federal student loans.** On July 1, the interest rates on subsidized federal student loans will decrease from 6 percent to 5.6 percent. This is the second of four annual cuts in this interest rate; it will continue to drop until it reaches 3.4 percent in 2011.
- ✓ **Reasonable and affordable monthly college loan payments for borrowers.** On July 1, a new Income-Based Repayment program will go into effect that caps borrowers' monthly loan payments at just 15 percent of their discretionary income (15 percent of what a borrower earns above 150 percent of the poverty level for their family size). Any current or future borrower whose loan payment exceeds 15 percent of their discretionary income is eligible. After 25 years in the program, borrowers' debts will be completely forgiven.
- ✓ **Higher Pell Grant scholarships that cover the average tuition at public universities.** Due to funding provided by both the College Cost Reduction and Access Act and the American Recovery and Reinvestment Act, the maximum Pell Grant scholarship for the 2009-2010 school year will be \$5,350 – more than \$600 above last year's award.

In addition, students and borrowers will be able to continue to take advantage of other recent programs enacted under the law that will make it easier for graduates to go into public service fields while grappling with student debt. To encourage more students to become teachers, the law provides up-front tuition assistance, known as TEACH Grants, of \$4,000 a year – for a maximum of \$16,000 – to students who commit to teaching high need subject areas in high need schools for four years after graduation. (These grants first went into effect for the 2008-2009 school year).

Recent surveys also show students' interest in public service jobs is surging. Graduates who enter into public service careers, such as teachers, public defenders and prosecutors, firefighters, nurses, non-profit workers and more, will be eligible for complete loan forgiveness after 10 consecutive years of public service and loan payments. (This program began on October 1, 2007.)

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WHO BENEFITS? A SNAPSHOT...

The interest rate cut...

- Nationwide, about 5.5 million students borrow need-based federal student loans each year. According to the Congressional Research Service, half of these borrowers come from families with incomes between \$26,000-68,000.
- About 38 percent of African-American students take out need-based student loans each year.
- About 25 percent of Hispanic students take out need-based student loans each year.

The Income-Based Repayment program...

- While it's difficult to estimate an approximate number of borrowers who could participate, at the end of 2008, there were almost \$556 billion in outstanding federal loans, representing almost 95 million student loans to more than 30 million borrowers. In 2008, about 8.9 million students borrowed federal loans.

The Pell Grant scholarship...

- About 6 million students received the Pell Grant scholarship for the 2007-2008 school year. Of these students, 75 percent had family incomes below \$30,000.
- About 47 percent of all African-American students receive Pell Grant scholarships each year.
- About 37 percent of Hispanic students receive the Pell Grant scholarship each year.

WHO QUALIFIES FOR INCOME-BASED REPAYMENT?

- Borrowers who currently are paying back federal student loans and new borrowers, whose debt exceeds 15 percent of their discretionary income. Borrowers with hefty debt loads or low-paying jobs are most likely to qualify.
- The program covers all federal loans – both Direct and Federal Family Education loans – made to students, including Stafford, Grad PLUS and federal consolidation loans, but not those made to parents (PLUS loans). Perkins loans are also eligible if a borrower consolidates them into a FFEL or Direct Loan.
- A borrower must also have enough debt relative to their income to qualify for a reduced payment. If a borrower earns below 150 percent of their poverty level for their family size, their payment will be \$0. If they earn above it, their payment will be capped at 15 percent of whatever their income is over that amount.