

Higher Ed Watch

A Blog from New America's Higher Education Initiative

July 1: A Banner Day for Student Aid

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Tomorrow marks the beginning of a new era in federal student aid. The Federal Family Education Loan (FFEL) program will officially be put to rest on Thursday and from now on, the government will make federal student loans directly to students through their colleges.

As [guest blogger Eileen O'Leary](#) wrote yesterday, the transition is proceeding remarkably smoothly -- despite the hysterical predictions from the student loan industry and its friends in Congress that the shift would lead to "massive confusion" and "immense risk." Instead, financial aid administrators like Reed College's Leslie Limper say they have been pleasantly surprised to find that the process has been "easy and straightforward."

Spreading fear about the transition was just one of the [scare tactics](#) the loan industry used to try and frighten lawmakers away from eliminating the generous federal subsidies they had long grown accustomed to receiving. But the Obama administration and Democratic Congressional leaders stood up to these powerful interests. As a result, the federal student loan program will now be substantially simpler and less costly, and much less susceptible to [the types of corruption and abuses that have run rampant in the FFEL program](#).

As monumental as the shift to direct lending is, it is, however, just one of the [changes to federal student aid](#) that will take effect on Thursday that will benefit students and borrowers. These include:

- A \$200 increase in the maximum Pell Grant, to \$5,550 for the 2010-11 academic year.
- A 1.1 percentage point decrease in the fixed interest rate charged on new federally subsidized Stafford Loans, to 4.5 percent.
- A one-half percentage point reduction in the origination fees that borrowers must pay on their federal student loans to 1 percent of total amount borrowed.
- A 0.6 percentage point drop in the interest rate charged on PLUS loans for parents and graduate students at colleges that previously participated in the Federal Family Education Loan (FFEL) program, to 7.9 percent.

Meanwhile, borrowers with variable-rate Stafford Loans originated before July 1, 2006 will see their rates drop slightly to 2.47 percent on Thursday. That's 0.1 percentage point lower than the current 2.48 rate on these loans. Members of the Class of 2010 who have these older loans can lock in an even lower rate of 1.87 percent if they consolidate their variable rate loans during the six month grace period before they enter repayment.

In addition, borrowers with low incomes who are heavily indebted will benefit from changes that the Education Department has made to the [Income-Based Repayment \(IBR\)](#) program, which caps the total amount struggling borrowers need to pay on their federal loans each month based largely on their income.

Starting on Thursday, eligibility for IBR will be based on either the balance of a borrower's federal loan when that individual first entered repayment or, for the first time, on the current loan amount, whichever is greater. "This will allow borrowers whose loan balances have increased (often due to accrued interest during periods of deferment and forbearance) to qualify based on what they actually owe," according to [the Project on Student Debt](#), which has championed the IBR program.

The Department has also made the program more equitable for borrowers who are married. Under the rule changes, which go into effect tomorrow, lenders will be required to factor in a couple's total federal student loan debt, as well as their total income, when calculating payments. Previously, the program did not recognize, our colleagues at the student debt project say, "that joint income has to cover both spouses' federal loan payments, resulting in payment requirements up to twice what two equivalent single people would have to pay."

With the Fourth of July just around the corner, these changes should give students and borrowers a reason to celebrate. Now if we could only [get college prices under control](#)...