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VASFAA Meeting Follow-up

1. *Interest rates on college loans should be market driven. What, if any, legislation on the table would do this?*

   Currently, students, in effect, are paying a tax when they pay the interest on their student loans. This is because the government borrows money more cheaply that it is lending to students. Allowing Stafford Loan interest rates to double this summer would generate close to $34 billion dollars in interest payments for the federal government. This would affect nearly 7 million students and on average add $1,000 to their education debt. Legislation that Senator Sanders is considering proposing would address this issue and tie interest rates to market conditions. The FAIR Act would temporarily lower rates for all student loans. Interest rates on education loans would be tied to the market rate – with a cap at 8 % - and fluctuate over time. President Obama's proposed budget also calls for loan rates that adjust to market conditions, but would not impose any sort of cap.

2. *Are there current legislative attempts to return loan origination fees to their pre-sequester rates?*

   As you know, loan origination fees for federal student loans made under the William D. Ford Federal Direct Loan program are subject to the sequester. That means the origination fees for Subsidized Stafford Loans, Unsubsidized Stafford Loans and PLUS Loans will see a 5.1 percent increase. The Department of Education recently announced that it is applying the higher loan fees to those loans whose first disbursements are on or after July 1, 2013. Both democrats and republicans have introduced plans to cancel either parts of the sequester or the entire plan. The loan origination fee problem would be fixed under these comprehensive plans. However, the inability to agree on one way forward has prevented a fix from being reached. As of now, no targeted fix addressing only the loan origination fees has been proposed.

3. *Will the Senate's plan to prevent a hike in Stafford loan rates apply to both subsidized and unsubsidized loans?*

   Efforts to prevent a rate hike from 3.4% to 6.8% would only apply to subsidized loans. Interest rates for unsubsidized loan are already 6.8% and would not be lowered by the senate budget proposal.

4. *Is there an effort to phase out subsidized Stafford Loans?*

The White House budget released last week calls for stopping offering student loans with fixed interest rates. Currently, both subsidized and unsubsidized Stafford Loans have fixed interest rates and as a result, would be significantly altered if the president's proposal was enacted. While, it would be possible that a Stafford Loan program would exist, it wouldn't look like it does today under the White House Budget.