

## A Borrower's Guide to July 1, 2008

The first of July is an important date for federal student loans: it's when interest rates and other terms change each year. After July 1, 2008, in addition to a drop in costs for many loans, thousands of borrowers in public service professions can take a major step toward student loan forgiveness.

This is a guide to what college students, their parents, and people already repaying their student loans need to know about the helpful changes taking place on July 1, 2008.

### Rates Go Down on New Stafford Loans

- The fixed interest rate for new Subsidized Stafford loans drop from 6.8% to 6.00% for undergraduates. Subsidized Stafford loans go mostly to students with family incomes under \$80,000, and the government pays the interest while you're in school or in deferment.
- Fees for all Stafford loans drop by half a percentage point, to 2% of the amount borrowed. This fee decrease applies to new Subsidized and Unsubsidized Stafford loans for both undergraduate and graduate students.

### More Loan Funds Become Available

- Undergraduates can borrow an additional \$2,000 each year in unsubsidized Stafford loans (interest is charged while you are in school) at a fixed interest rate of 6.8%. The total amount of Stafford loans, including both subsidized and unsubsidized, that undergraduates can borrow increases to \$31,000 for dependent students and \$57,500 for independent students.
- In addition, students who are interested in teaching and have good grades can borrow another \$4,000 each year for up to four years through the new [TEACH Grant program](#). TEACH Grants become unsubsidized Stafford loans if you don't fulfill a teaching obligation that satisfies the TEACH Grant's strict criteria.

### Start the Clock for Public Service Loan Forgiveness

[Public Service Loan Forgiveness](#) is a new federal program that will forgive remaining federal student loan debt after 10 years of qualifying loan payments and eligible full-time employment. The program is designed for borrowers whose income is low relative to their debt for at least some of their time while in a public service job. Public service includes employment by federal, state, local or tribal governments (including the military and public schools and colleges), and by nonprofit 501(c)(3) organizations.

However, even if you're in an eligible job and have a large amount of student debt relative to your income, you will only qualify for loan forgiveness if you are in the Direct Loan Program. The sooner you start making eligible payments, the better.

- Starting July 1, 2008, borrowers who have already consolidated their federal loans with a private lender in the FFEL program (like Sallie Mae or other financial institutions), *can [reconsolidate into the Direct Loan Program](#)* to become eligible for Public Service Loan Forgiveness.
- Once in the Direct Loan Program, you must also choose one of these three repayment plans to qualify: Income-Contingent Repayment, Income-Based Repayment. ([IBR](#) becomes available July 2009), or Standard (10-year) Repayment.
- Borrowers who have not yet consolidated their federal loans can apply for a Direct consolidation loan at any time, and those who already have Direct Loans can switch repayment plans at any time.

Anyone who thinks they might be eligible for Public Service Loan Forgiveness would be wise to begin

making qualifying Direct Loan payments as soon as possible. You should also save your pay stubs to prove eligible employment. See [IBRinfo.org](http://IBRinfo.org) for details, updates, and more information as it becomes available.

## Borrowers with Variable-Rate Loans Can Lock in New Low Rates

All unconsolidated Stafford loans that originated before July 1, 2006, have variable interest rates that reset each year. This year, the variable rate is going down to 4.21% on July 1. That's three percentage points less than the current rate of 7.22%! For class of 2008 graduates, the news is even better. If you consolidate during your six-month grace period, you can lock in an even lower rate, 3.61%.

Starting July 1, 2008, and for the following year, if you consolidate your loans, the new low rate will be locked in for the remaining life of the loan. Be sure to consolidate into the Direct Loan program if you want the chance to qualify for Public Service Loan Forgiveness.

## Links to More Information

- Not sure what kind of loan you have, or whether you have already consolidated? Check the [National Student Loan Data System](#) to be sure. If you can't remember your pin number, you can [get a new one](#).
- See an [overview](#) of federal loan terms and rates in 2008-09.
- [Consolidate or re-consolidate](#) into the Direct Loan Program.
- Learn more about consolidation at [FinAid.org](http://FinAid.org).
- Learn more about the July 1 changes from [Higher Ed Watch](#).
- Learn more about TEACH Grants from the [U.S. Department of Education](#).
- For more about Public Service Loan Forgiveness and whether you qualify, visit [IBRinfo.org](http://IBRinfo.org)