Legislation Rolls Back Student Loan Interest Rates

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Student Loan Rates

David Lerner Associates: Legislation to roll back the increase in student loan interest rates took effect earlier this month.

(Newswire.net -- September 30, 2013) Syosset, New York -- In late July, Congress passed legislation to roll back the increase in student loan interest rates that took effect earlier in the month. This legislation ties student loan interest rates to the financial markets, instead of allowing Congress to set these rates, as they have in the past. On August 9, 2013, President Obama signed the bill into law.

Temporary Relief for Students

The result is a rollback of the doubling of interest rates on federal student loans for undergraduates — from 3.4 percent to 6.8 percent — that took place on July 1. Instead, undergraduate students taking out loans this fall will pay an interest rate of 3.9 percent on new loans for the 2013-2014 school year. This is slightly higher than the 3.4 percent rate that existed before July, but much lower than the 6.8 percent rate that kicked in on July 1.

Graduate students, meanwhile, will pay a higher student loan interest rate this fall of 5.4 percent, while parents will pay 6.4 percent. But since the rate on student loans will be tied to the yield on the 10-year Treasury note, these rates could rise in the future. The legislation does cap the maximum interest rate on student loans at 8.25 percent for undergraduates, 9.5 percent for graduate students and 10.5 percent for parents.

Most Congressional leaders were pleased with the legislation, since it significantly lowered student loan interest rates for now. Some student advocates were not happy, though, since these rates could rise in the future if the economy improves and market interest rates go up.

Based on economic projections, it’s estimated that the rates on student loans will rise to 4.6 percent (undergrad) and 6.2 percent (graduate) in 2014, 5.4 percent (undergrad) and 7.0 percent (graduate) in 2015, 6.3 percent (undergrad) and 7.8 percent (graduate) in 2016, and 7.0 percent (undergrad) and 8.6 percent (graduate) in 2017. An estimated $715 million is projected to be raised by the U.S. Treasury over the next 10 years by allowing these rates to rise.

A Growing Concern

The rapid growth of student loan debt in recent years has become a concern among some financial experts. The total amount of student loan debt in the U.S. recently soared past the $1 trillion mark, making it the second largest type of debt (behind home mortgages) held by U.S. consumers. Meanwhile, the average amount of money owed on student loans is now nearly $35,200.

“The best way to avoid racking up large student loan debt is for parents and grandparents to start saving for their children and grandchildren’s college educations as early in their lives as possible,” says David Lerner Associates Branch Manager Michael Cody. “There are several tax-advantaged savings vehicles available to help accomplish this objective, including Section 529 plans, Coverdell Education Savings Accounts (ESAs), zero coupon municipal bonds and Roth IRAs.”

Roth IRAs may be a particularly attractive option for some families because contributions to Roth IRAs (but not Roth IRA earnings) can be withdrawn for any purpose, at any age, without tax or penalty. “This includes paying for college or private school,” says Cody. “So one strategy is to withdraw Roth IRA principal for college and leave the earnings in the account for retirement.”

For help in determining how much money you may need to save for your children or grandchildren’s college educations, check out the David Lerner Associates Education Planner by visiting http://www.davidlerner.com/education-planner.aspx.