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Interest Rates on Subsidized Stafford Loans to Undergraduate Students

David P. Smole
Specialist in Education Policy

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Summary

Subsidized Stafford Loans are one of the types of federal student loans made available through the William D. Ford Federal Direct Loan (DL) program, authorized under Title IV, Part D of the Higher Education Act of 1965 (HEA). These loans are only available to students who demonstrate financial need. Since July 1, 2012, Subsidized Stafford Loans are available exclusively to undergraduate students. The federal government "subsidizes" these loans by relieving the borrower of the requirement to pay the interest that accrues while he or she is in school and during other authorized periods.

Fixed interest rates apply to all Subsidized Stafford Loans made on or after July 1, 2006. During the period from July 1, 2006, through June 30, 2008, Subsidized Stafford Loans to undergraduate students were made with a fixed interest rate of 6.8%. The College Cost Reduction and Access Act of 2007 (CCRAA; P.L. 110-84) set lower interest rates on Subsidized Stafford Loans made to undergraduate students during the period from July 1, 2008, through June 30, 2012. Different, incrementally lower fixed interest rates were set for loans made for each award year (AY) during this period. A fixed interest rate of 3.4% applies to Subsidized Stafford Loans made to undergraduate students during the final award year (AY) affected by the CCRAA amendments, AY2011-AY2012, which ran from July 1, 2011, through June 30, 2012

The interest rate reductions made by the CCRAA did not apply to Subsidized Stafford Loans that would be made on or after July 1, 2012. These loans were scheduled to be made with a fixed interest rate of 6.8%. In the 112th Congress, there was broad support for extending, through June 30, 2013, the period during which Subsidized Stafford Loans would be made with a 3.4% interest rate. However, the process of identifying and agreeing on offsets to the resulting increase in mandatory spending proved difficult during a period in which the federal government faced budgetary challenges. Provisions enacted by the Moving Ahead for Progress in the 21st Century Act (MAP-21; P.L. 112-141) set a fixed interest rate of 3.4% for Subsidized Stafford Loans made during the one-year period from July 1, 2012, through June 30, 2013 (AY2012-2013). The 3.4% interest rate set by MAP-21 applies only to loans made for AY2012-2013. Under current law, all Subsidized Stafford Loans made on or after July 1, 2013, will have a fixed interest rate of 6.8%.

Whether to allow the 6.8% interest rate scheduled to apply to loans disbursed on or after July 1, 2013, to take effect or to enact legislation that would establish a different interest rate or interest rate formula is an issue that may be considered during the 113th Congress.

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The William D. Ford Federal Direct Loan (DL) program, authorized under Title IV, Part D of the Higher Education Act of 1965 (HEA; P.L. 89-329), as amended, is the primary federal student loan program administered by the U.S. Department of Education.[1] Several types of federal student loans are made available through the DL program to undergraduate and graduate students and to the parents of dependent undergraduate students to help them finance their postsecondary education expenses. These are Subsidized Stafford Loans, Unsubsidized Stafford Loans, PLUS Loans, and Consolidation Loans. The terms and conditions of federal student loans are specific to when the loan is made and may also depend on when a borrower first obtained a federal student loan.[2] This report examines the interest rates that are applicable to Subsidized Stafford Loans borrowed by undergraduate students.

Subsidized Stafford Loans to Undergraduate Students

Subsidized Stafford Loans are only available to students who demonstrate financial need. Since July 1, 2012, Subsidized Stafford Loans are available exclusively to undergraduate students.[3] With certain exceptions, the federal government "subsidizes" these loans by paying the interest that accrues on the loans while the borrower is enrolled in an eligible program on at least a half-time basis (in-school), during a six-month grace period that begins once a borrower first ceases to be enrolled in school on at least a half-time basis,[4] and during periods when a borrower is eligible to defer making payments (deferment).[5] For Subsidized Stafford Loans made between July 1, 2012, and June 30, 2014, (during award years (AY) 2012-2013 and AY2013-2014) the interest will be subsidized during in-school and deferment periods, but not during the six-month grace period.[6] Students must begin repaying their loans at the end of the six-month grace period. For individuals who are new borrowers[7] on or after July 1, 2013, the period during which individuals

[1] Until July 1, 2010, federal student loans were also made available through the Federal Family Education Loan (FFEL) program, authorized under Title IV, Part B of the HEA. The FFEL program preceded the establishment of the DL program and many of the terms and conditions of DL program loans are based on the terms and conditions that apply to FFEL program loans. The SAFRA Act, part of the Health Care and Education Reconciliation Act of 2010 (HCERA; P.L. 111-152), terminated the authority to make new loans under the FFEL program after June 30, 2010.

[2] In general, loan terms and conditions are specific to the date on which the first disbursement of the loan is made. However, certain loan terms and conditions are specific to the date on which the borrower first obtained a federal student loan made under HEA, Title IV. For additional information on loans made through the DL program, see CRS Report R40122, *Federal Student Loans Made Under the Federal Family Education Loan Program and the William D. Ford Federal Direct Loan Program: Terms and Conditions for Borrowers*, by David P. Smole.

[3] Authority to make Subsidized Stafford Loans to graduate and professional students was terminated by the Budget Control Act of 2011 (BCA; P.L. 112-25). For additional information on BCA amendments, see CRS Report R41965, *The Budget Control Act of 2011*, by Bill Heniff Jr., Elizabeth Rybicki, and Shannon M. Mahan.

[4] A grace period is a six-month period beginning immediately after a student first ceases to be enrolled in school on at least a half-time basis. During the grace period, borrowers are not required to begin repaying their loans. According to amendments made by P.L. 112-74, interest will not be subsidized during the grace period on Subsidized Stafford Loans disbursed between July 1, 2012, and June 30, 2014.

[5] Deferment periods (discussed later in this report) are periods during which borrowers are able to suspend loan repayment (e.g., if they are pursuing additional postsecondary studies, are performing qualifying military service, or are experiencing an economic hardship).

[6] Interest subsidies were eliminated on loans disbursed during this two-year period by the Consolidated Appropriations Act, 2012 (P.L. 112-74). For additional information on P.L. 112-74, see CRS Report R42010, *Labor, Health and Human Services, and Education: FY2012 Appropriations*, coordinated by Karen E. Lynch.

[7] According to HEA, §103(12) New Borrower, "[t]he term 'new borrower' when used with respect to any date means (continued...)

may borrow Subsidized Stafford Loans and the period during which the in-school interest subsidy may be provided will be limited to 150% of the published length of their educational program.[8]

Subsidized Stafford Loans are a form of need-based federal student aid. To borrow a Subsidized Stafford Loan, a student must establish financial need through federal need analysis procedures. According to federal rules, the amount a student may borrow through a Subsidized Stafford Loan is determined by subtracting the sum of the student's expected family contribution (EFC) and estimated financial assistance (EFA) from other sources (e.g., scholarships, grants, other loans, and other assistance) from the cost of attendance (COA) of the school the student attends. Each year, students may borrow Subsidized Stafford Loans in amounts up to the lesser of either the amount that their school's COA exceeds the sum of their EFC and EFA, or the annual loan limit applicable to their class level. Currently, annual loan limits for Subsidized Stafford Loans to undergraduate students are $3,500 for first-year students, $4,500 for second-year students, and $5,500 for students in their third year of undergraduate studies or beyond. Students often borrow more than one loan over a multi-year period of undergraduate study. Undergraduate students may borrow up to a cumulative maximum of $23,000 in Subsidized Stafford Loans.

Interest Rates

The interest rates applicable to Subsidized Stafford Loans are established by statute. Applicable interest rates have changed numerous times throughout the history of the federal student loan programs, including changes between fixed interest rates and variable interest rate formulas. Like many other loan terms and conditions, the interest rate or interest rate formula applicable to a loan depends on when the loan is made. A brief history of interest rates and interest rate formulas that have been applicable to Subsidized Stafford Loans since the establishment of the DL program is provided below.

Variable Rate Loans

When the DL program was first established, Subsidized Stafford Loans were made with variable interest rates. Loans disbursed on or after October 1, 1992, and before July 1, 2006, are variable rate loans, on which rates adjust annually.[9] The formulas used to calculate the variable interest rates for these loans, many of which are still outstanding, are specified by statute and stay in effect from the time the loan is disbursed through the life of the loan (provided that the loan is not consolidated into a fixed-rate Consolidation Loan).[10] The rates for these loans are determined every June 1, and they become effective July 1 for the following 12-month period. The variable

(...continued)

an individual who on that date has no outstanding balance of principal or interest owing on any loan made, insured, or guaranteed under title IV."

[8] These changes that limit the availability of the in-school interest subsidy were made by MAP-21.

[9] For all Stafford Loans first disbursed on or after July 1, 1994, the applicable interest rate, and whether the rate is fixed or variable, depends on the date the first disbursement of a borrower's loan is made. Previously, applicable interest rates depended largely on whether a borrower had outstanding loans at the time of borrowing an additional loan.

[10] If a variable rate loan is consolidated into a new Consolidation Loan, the interest rate becomes fixed. At present, the interest rate on Consolidation Loans is the weighted average of the interest rates in effect on the underlying loans, at the time of consolidation, rounded up to the nearest higher one-eighth of 1%, and capped at 8.25%. Previously, other rate setting formulas applied to Consolidation Loans.

rates are calculated based on the bond equivalent rate of the 91-day Treasury bill,[11] plus a premium that differs depending on whether the borrower is in school or in repayment. For loans made from July 1, 1998, through June 30, 2006, the borrower interest rate is based on the 91-day Treasury bill, plus 1.7 percentage points for borrowers who are in school, grace, or deferment; and the 91-day Treasury bill, plus 2.3 percentage points for borrowers who are in repayment.[12] The maximum interest rate that may apply to Subsidized Stafford Loans and Unsubsidized Stafford Loans disbursed during this period is capped at 8.25%.

Fixed Rate Loans

In 2002, legislation was enacted to transition to a fixed interest rate structure for student loans.[13] P.L. 107-139 amended the HEA to specify that all Subsidized Stafford Loans and Unsubsidized Stafford Loans made on or after July 1, 2006, would have a fixed interest rate of 6.8%. On student loans with a fixed interest rate, the interest rate that is in effect at the time the loan is made remains in effect until the loan is paid in full.

In 2007, the College Cost Reduction and Access Act of 2007 (CCRAA; P.L. 110-84) set incrementally lower fixed interest rates on Subsidized Stafford Loans made to undergraduate students during the four-year period from July 1, 2008, through July 1, 2012 (AY2008-2009 through AY2011-2012).[14] Different, incrementally lower fixed interest rates were set for loans made for each award year during this period. A fixed rate of 6.0% applies to loans made on or after July 1, 2008, and before July 1, 2009 (AY2008-2009); a fixed rate of 5.6% applies to loans made on or after July 1, 2009, and before July 1, 2010 (AY2009-2010); a fixed rate of 4.5% applies to loans made on or after July 1, 2010, and before July 1, 2011 (AY2010-2011); and a fixed rate of 3.4% applies to loans made on or after July 1, 2011, and before July 1, 2012 (AY2011-2012). The CCRAA interest rate changes did not apply to Subsidized Stafford Loans that would be made to undergraduate students on or after July 1, 2012, which were scheduled to be made with a 6.8% interest rate.

In 2012, the Moving Ahead for Progress in the 21st Century Act (MAP-21; P.L. 112-141) set an interest rate of 3.4% on Subsidized Stafford Loans made between July 1, 2012, and June 30, 2013 (AY2012-2013). Under current law, Subsidized Stafford Loans made on or after July 1, 2013—those for AY2013-2014 and future award years—will have a fixed interest rate of 6.8%.

Interest rates in effect during repayment on Subsidized Stafford Loans made since the establishment of the DL program are presented below in **Table 1**.

[11] Interest rates are adjusted annually based on the bond equivalent rate of the 91-day Treasury bill at the final auction held prior to June 1.

[12] Differential rates between in-school, grace, and deferment period, and the repayment period were established when Stafford Loans were primarily made through the Federal Family Education Loan (FFEL) program because loan servicing costs are lower during the in-school, grace, and deferment periods, when no payments are required. On Subsidized Stafford Loans, a lower interest rate during in-school, grace, and deferment periods does not directly impact the amount owed by the borrower, as the interest is subsidized by the government during these periods.

[13] P.L. 107-139, *An Act to amend the Higher Education Act of 1965 to establish fixed interest rates for student and parent borrowers, to extend current law with respect to special allowances for lenders, and for other purposes*.

[14] These lower interest rates were offset by savings in mandatory spending generated by changes made to the FFEL program. However, the savings were not sufficient to pay for reduced interest rates on loans made during subsequent award years. For additional information on the CCRAA amendments to the HEA, see CRS Report RL34077, *Student Loans, Student Aid, and FY2008 Budget Reconciliation*, by Adam Stoll, David P. Smole, and Charmaine Mercer.

Table 1. Stafford Loan Interest Rates in Effect During Repayment: 1993-1994 through 2013-2014

Interest Rate in Effect (Jul. 1—Jun. 30)	Variable Interest Rate Loans				Fixed Interest Rate Loans					
	Disbursement Period									
	Oct. 1, 1992—Jun. 30, 1994	Jul. 1, 1994—Jun. 30, 1995	Jul. 1, 1995—Jun. 30, 1998	Jul. 1, 1998—Jun. 30, 2006	Jul. 1, 2006—Jun. 30, 2008	Jul. 1, 2008—Jun. 30, 2009	Jul. 1, 2009—Jun. 30, 2010	Jul. 1, 2010—Jun. 30, 2011	Jul. 1, 2011—Jun. 30, 2013	Jul. 1, 2013—Jun. 30, 2014
1993-1994	6.22									
1994-1995	7.43	7.43								
1995-1996	8.92	8.25	8.25							
1996-1997	8.26	8.25	8.25							
1997-1998	8.26	8.25	8.25							
1998-1999	8.26	8.25	8.25	7.46						
1999-2000	7.72	7.72	7.72	6.92						
2000-2001	8.99	8.25	8.25	8.19						
2001-2002	6.79	6.79	6.79	5.99						
2002-2003	4.86	4.86	4.86	4.06						
2003-2004	4.22	4.22	4.22	3.42						
2004-2005	4.17	4.17	4.17	3.37						
2005-2006	6.10	6.10	6.10	5.30						
2006-2007	7.94	7.94	7.94	7.14	6.80					
2007-2008	8.02	8.02	8.02	7.22	6.80					
2008-2009	5.01	5.01	5.01	4.21	6.80	6.00				
2009-2010	3.28	3.28	3.28	2.48	6.80	6.00	5.60			
2010-2011	3.27	3.27	3.27	2.47	6.80	6.00	5.60	4.50		
2011-2012	3.16	3.16	3.16	2.36	6.80	6.00	5.60	4.50	3.40	
2012-2013	3.19	3.19	3.19	2.39	6.80	6.00	5.60	4.50	3.40	
2013-2014	TBD[a]	TBD[a]	TBD[a]	TBD[a]	6.80	6.00	5.60	4.50	3.40	6.80

Sources: U.S. Dept. of Education, Office of Federal Student Aid, FFEL Variable Interest Rates; and CRS Report R40122, *Federal Student Loans Made Under the Federal Family Education Loan Program and the William D. Ford Federal Direct Loan Program: Terms and Conditions for Borrowers*, by David P. Smole.

a. Variable interest rate yet to be determined.

Legislation in the 112th Congress

In the 112th Congress, numerous proposals were made to reduce the interest rate that applies to Subsidized Stafford Loans made to undergraduate students below the fixed rate of 6.8% that was scheduled to take effect for loans made on or after July 1, 2012. Most of these proposals were to extend the 3.4% fixed interest rate that applies to Subsidized Stafford Loans made during the period from July 1, 2011, through June 30, 2012 (AY2011-2012) to also apply to loans made during the period from July 1, 2012, through June 30, 2013 (AY2012-2013). While there appeared to be broad support for extending the period during which Subsidized Stafford Loans would be made with a 3.4% fixed interest rate through June 30, 2013, the process of identifying and agreeing on offsets to the resulting increase in mandatory spending proved difficult during a period in which the federal government faced budgetary challenges.

President's FY2013 Budget Proposal

As part of the President's budget for FY2013, the Obama Administration proposed reducing the interest rate that would apply to Subsidized Stafford Loans made to undergraduate students during the period from July 1, 2012, through June 30, 2013, from 6.8% to 3.4%.[15] The proposal would not have affected loans made on or after July 1, 2013, which under current law are scheduled to be made with a fixed interest rate of 6.8%. The Administration indicated that this change would affect approximately 7.4 million borrowers.[16] The Congressional Budget Office (CBO) estimated that this change would lead to an increase of $6.0 billion in mandatory spending.[17] At the same time, the Administration also proposed eliminating the interest subsidy on Subsidized Stafford Loans for borrowers who remain in school beyond 150% of their program length.[18]

Congressional Action

A brief summary of legislation that was considered during the 112th Congress to lower the interest rate on Subsidized Stafford Loans made to undergraduate students is provided below.

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[15] U.S. Department of Education, FY2013 Justification of Appropriation Estimates to the Congress, "Student Loans Overview," at http://www2.ed.gov/about/overview/budget/budget13/justifications/r-loansoverview.pdf.

[16] U.S. Department of Education, "President Obama Calls on Congress to Prevent Student Loan Interest Rates from Doubling," The Official Blog of the U.S. Department of Education, April 21, 2012, http://www.ed.gov/blog/2012/04/president-obama-calls-on-congress-to-prevent-student-loan-interest-rates-from-doubling/; and unpublished data made available by the U.S. Department of Education.

[17] Congressional Budget Office, CBO's Reestimate of the President's 2013 Mandatory Proposals for Postsecondary Education, March 2012, http://www.cbo.gov/sites/default/files/cbofiles/attachments/43101_HigherEducation_PresidentsFiscal2013PoliciesReestimated.pdf.

[18] U.S. Department of Education, FY2013 Justification of Appropriation Estimates to the Congress, "Student Loans Overview," at http://www2.ed.gov/about/overview/budget/budget13/justifications/r-loansoverview.pdf.

H.R. 4628, the Interest Rate Reduction Act

The House passed H.R. 4628, the Interest Rate Reduction Act, which contained language to reduce the interest rate from 6.8% to 3.4% on Subsidized Stafford Loans made to undergraduate students during the period from July 1, 2012, through June 30, 2013. H.R. 4628 would not have changed the interest rate of 6.8% scheduled to apply to loans made on or after July 1, 2013. To offset the increase in mandatory spending, H.R. 4628 would have repealed the Prevention and Public Health Fund (PPHF) authorized under Section 4002 of the Patient Protection and Affordable Care Act (ACA; P.L. 111-148), as amended, and would have rescinded the balance of unobligated monies made available for the fund.[19] Under existing law, PPHF funds are to be transferred by the Secretary of Health and Human Services (HHS) to "programs authorized by the Public Health Service Act [PHSA], for prevention, wellness, and public health activities including prevention research, health screenings, and initiatives, such as the Community Transformation grant program, the Education and Outreach Campaign Regarding Preventive Benefits, and immunization programs." H.R. 4628 was not considered by the Senate.

S. 2343, the Stop the Student Loan Interest Rate Hike Act of 2012

As an alternative to H.R. 4628, the Senate considered S. 2343, which contained language to reduce the interest rate from 6.8% to 3.4% on Subsidized Stafford Loans made to undergraduate students during the period from July 1, 2012, through June 30, 2013. It would not have changed the interest rate of 6.8% scheduled to apply to loans made on or after July 1, 2013. To offset the increase in mandatory spending, S. 2343 would have amended the Internal Revenue Code of 1986 (IRC), as amended, and the Social Security Act (SSA), as amended.[20] These amendments would have required taxpayers with modified adjusted gross income in excess of $250,000 to pay self-employment taxes (Social Security and Medicare) on certain income currently exempt from self-employment taxes if that income was received from a professional service partnership or a professional service S corporation in which at least 75% of gross income was attributable to three or fewer shareholders.[21] The Senate failed to pass S. 2343.

MAP-21 (P.L. 112-141)

Legislation to lower the interest rate on Subsidized Stafford Loans was incorporated into a larger surface transportation reauthorization bill, H.R. 4348, the Moving Ahead for Progress in the 21st Century Act (MAP-21), and enacted as P.L. 112-141. MAP-21 lowered the interest rate scheduled to apply to Subsidized Stafford Loans made during the period from July 1, 2012, through June 30, 2013 (AY2012-2013) from 6.8% to 3.4%. It did not make any change to the 6.8% interest rate scheduled to apply to Subsidized Stafford Loans made on or after July 1, 2013. Also, to partially offset the increase in mandatory spending resulting from the reduction in student loan interest rates, for individuals who are new borrowers on or after July 1, 2013, the MAP-21 amendments restrict both the period of eligibility to borrow Subsidized Stafford Loans and the period during

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[19] For information on the budgetary effects of H.R. 4628, see CBO, "Estimate of Budgetary Effects of H.R. 4628, the Interest Rate Reduction Act, as Introduced on April 25, 2012," April 26, 2012.

[20] For information on the budgetary effects of S. 2343, see CBO. "Estimate of Budgetary Effects of S. 2343, the Stop the Student Loan Interest Rate Hike Act of 2012, as Introduced on April 24, 2012," April 25, 2012.

[21] For additional information on S corporations and how they might be affected by S. 2343, see CRS Report R40748, *Business Organizational Choices: Taxation and Responses to Legislative Changes*, by Mark P. Keightley.

which the in-school interest subsidy may be provided to 150% of the published length of their educational program.

Estimated Benefits to Borrowers of an Interest Rate Reduction

The value of an interest rate reduction to a borrower depends primarily on the amount borrowed and the duration of the period over which the borrower repays the loan. The Administration estimates that approximately 7.4 million undergraduate students will borrow Subsidized Stafford Loans during the period from July 1, 2012 through June 30, 2013.[22] During FY2013, which roughly corresponds to this period, the Administration estimates that the average loan amount will be approximately $3,385.[23] **Table 2** presents estimates of the potential savings to borrowers in total interest paid as a result of the reduction in the interest rate on Subsidized Stafford Loans from 6.8% to 3.4%. Figures are shown for the estimated average loan amount and maximum amounts that undergraduate students may borrow based on their class level.

Table 2. Estimated Savings from an Interest Rate Reduction from 6.8% to 3.4%

Borrower savings over the life of the loan

	Average Loan (FY2013)[a]	Max. Loan 1st year Undergraduate	Max. Loan 2nd year Undergraduate	Max. Loan 3rd year or Higher Undergraduate
6.8% Subsidized Stafford Loan				
Amount borrowed	$3,385	$3,500	$4,500	$5,500
Interest during grace period[b]	$115	$119	$153	$187
Balance at start of repayment	$3,500	$3,619	$4,653	$5,687
Total interest[c]	$1,448	$1,498	$1,926	$2,354
Total principal and interest	$4,833	$4,998	$6,426	$7,854
Monthly payment[c]	$40	$42	$54	$65
3.4% Subsidized Stafford Loan				
Amount borrowed	$3,385	$3,500	$4,500	$5,500
Interest during grace period[b]	$58	$60	$77	$94
Balance at start of repayment	$3,443	$3,560	$4,577	$5,594
Total interest[c]	$681	$704	$905	$1,106
Total principal and interest	$4,066	$4,204	$5,405	$6,606

[22] U.S. Department of Education, "President Obama Calls on Congress to Prevent Student Loan Interest Rates from Doubling," The Official Blog of the U.S. Department of Education, April 21, 2012, http://www.ed.gov/blog/2012/04/president-obama-calls-on-congress-to-prevent-student-loan-interest-rates-from-doubling/.

[23] Estimated average Subsidized Stafford Loan to undergraduate students for FY2013; U.S. Department of Education, *FY 2013 Department of Education Justifications of Appropriation Estimates to the Congress*, "Student Loans Overview," p. R-21.

	Average Loan (FY2013)[a]	Max. Loan 1st year Undergraduate	Max. Loan 2nd year Undergraduate	Max. Loan 3rd year or Higher Undergraduate
Monthly payment[c]	$34	$35	$45	$55
Estimated Savings				
Difference in total interest[c]	-$768	-$794	-$1,021	-$1,248
Difference in monthly payment[c]	-$6	-$7	-$9	-$10

Source: CRS analysis.

Notes: Values are not discounted to reflect the time value of money.

a. Estimated average Subsidized Stafford Loan to undergraduate students for FY2013. U.S. Department of Education, FY2013 Department of Education Justifications of Appropriation Estimates to the Congress, "Student Loans Overview," p. R-21.

b. The borrower is responsible for paying the interest that accrues during the grace period on all Subsidized Stafford Loans disbursed between July 1, 2012, and June 30, 2014.

c. The minimum monthly payment according to a standard repayment plan is $50, which may result in a loan being repaid in less than 10 years. However, most borrowers obtain more than one loan resulting in the combined repayment amount being more than $50 and sufficient to result in a full 10-year amortization. For purposes of comparison, these figures are all based on a full 10-year amortization.

On the estimated average loan amount of $3,385, a reduction in the interest rate from 6.8% to 3.4% results in savings of approximately $768 in total interest paid on a loan repaid according to a standard 10-year repayment plan. This amounts to savings of approximately $6 per month. For a student who borrows $5,500, the maximum amount that a student in the third year of undergraduate study or beyond may borrow, the interest rate reduction results in savings of approximately $1,248 in total interest paid, and approximately $10 per month.

Who Borrows Subsidized Stafford Loans?

In AY2010-2011, 7.6 million undergraduate students borrowed Subsidized Stafford Loans.[24] The U.S. Department of Education (ED) estimates that over 7.4 million undergraduate students will borrow Subsidized Stafford Loans in AY2012-2013.[25]

The most recent data available that show demographic and socioeconomic characteristics of borrowers are from the 2007-2008 National Postsecondary Student Aid Study (NPSAS:08). NPSAS:08 data showing the distribution of Subsidized Stafford Loan borrowers for AY2007-2008, by 2006 total income, are presented in **Table 3**. The table also shows average EFCs and average amounts borrowed for borrowers in selected income bands. Data are presented separately according to income bands for undergraduate dependent students and undergraduate independent students.[26] Borrowers are divided approximately equally between the two categories of students.

[24] U.S. Department of Education, unpublished data on AY2010-2011 Direct Loan Volume, by Academic Level.

[25] U.S. Department of Education, unpublished data on Subsidized Stafford Loans for AY2012-2013.

[26] For information on how student dependency status is determined, see CRS Report R40122, *Federal Student Loans Made Under the Federal Family Education Loan Program and the William D. Ford Federal Direct Loan Program: Terms and Conditions for Borrowers*, by David P. Smole.

For undergraduate dependent students, income bands are based only on the total income of a student's parents. For undergraduate independent students, income bands are based on the total income of the student and, if married, the income of the student and the student's spouse.

Distribution by Total Income

The majority of Subsidized Student Loans come from low-income families and middle-income families.[27] When considering dependent students, just over one-quarter of Subsidized Stafford Loan borrowers in AY2007-2008 were from families with total incomes of less than $30,000; and nearly half were from families with total incomes of less than $50,000. However, slightly more than half of dependent student borrowers were from families with total incomes of $50,000 or more; with one-eighth being from families with total incomes of $100,000 or more. For independent students, incomes tend to be lower and borrowing was concentrated among those with incomes between $10,000 and $50,000.

Table 3. Distribution of Subsidized Stafford Loan Borrowers by 2006 Total Income: AY2007-2008

Average EFCs and average amounts borrowed, by type of borrower

	Undergraduate Student Borrowers		
Income Band (2006)	**Percent in Income Band**	**Average Expected Family Contribution**	**Average Amount Borrowed in AY2007-2008**
Dependent students[a]			
$100,000 or more	12.5%	$19,223	$3,291
$80,000 to $99,999	11.1%	$13,472	$3,341
$70,000 to $79,999	7.9%	$10,812	$3,359
$60,000 to $69,999	8.9%	$8,613	$3,453
$50,000 to $59,999	10.9%	$5,984	$3,551
$40,000 to $49,999	10.7%	$4,248	$3,597
$30,000 to $39,999	11.8%	$2,637	$3,624
$20,000 to $29,999	12.0%	$1,241	$3,512
$10,000 to $19,999	7.9%	$446	$3,493
Less than $10,000	6.4%	$199	$3,394
Total	100.0%	$7,117	$3,466
Independent students[b]			
$50,000 or more	11.3%	$11,810	$3,111
$30,000 to $49,999	19.7%	$4,531	$3,321
$20,000 to $29,999	17.4%	$2,977	$3,238

[27] According to the U.S. Census Bureau, 2006 American Community Survey (ACS), median family income in the past 12 months in 2006 was $58,526. (2006 ACS, Table S1903).

	Undergraduate Student Borrowers		
Income Band (2006)	**Percent in Income Band**	**Average Expected Family Contribution**	**Average Amount Borrowed in AY2007-2008**
$10,000 to $19,999	22.7%	$1,491	$3,231
$5,000 to $9,999	13.3%	$228	$3,279
Less than $5,000	15.7%	$31	$3,269
Total	100.0%	$3,112	$3,249

Source: CRS analysis of U.S. Department of Education, National Center for Education Statistics, National Postsecondary Student Aid Study, 2007-2008, (NPSAS:08) data.

a. Total income of the parents of dependent students.

b. Total income of independent students and, if married, their spouse. Does not include the income of parents.

Issues for Congress

The decision to extend the 3.4% fixed interest rate to apply to Subsidized Stafford Loans made during AY2012-AY2013 was widely supported. However, the process of identifying and agreeing on offsets to the resulting increase in mandatory spending proved difficult during a period in which the federal government faced budgetary challenges.

The interest rates that will be applicable to future Subsidized Stafford Loans is an issue that may be considered during the 113th Congress. Under current law, all Subsidized Stafford Loans disbursed on or after July 1, 2013, are scheduled to have a fixed interest rate of 6.8%. This is double the rate that applies to the Subsidized Stafford Loans that are now being made. For future years, Congress might consider options for Subsidized Stafford Loans that include allowing the scheduled 6.8% interest rate to take effect, enacting legislation that would establish a different interest rate or interest rate formula,[28] or terminating the availability of this loan type.[29]

Author Contact Information

David P. Smole
Specialist in Education Policy
dsmole@crs.loc.gov, 7-0624

[28] For example, see Congressional Budget Office, *Reducing the Deficit: Spending and Revenue Options*, March 10, 2011, Mandatory Spending—Option11: Change the Interest Rate Structure for Student Loans, p. 32.

[29] For example, see The National Commission on Fiscal Responsibility and Reform, *The Moment of Truth*, December 2010, Recommendation 4.3: Eliminate In-School Subsidies in Federal Student Loan Programs, p. 45.