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# New Interest Rates on Federal Student Loans--Again

On August 9, President Obama signed the Bipartisan Student Loan Certainty Act of 2013, which changes the formula for determining federal student loan interest rates. The law comes after months of partisan bickering and uncertainty in the student loan arena, which culminated with the rate on subsidized Stafford Loans doubling to 6.8% on July 1.

The new legislation introduces a new market-based system that ties federal student loan interest rates to the government's borrowing costs. The legislation will apply retroactively to student loans that originated July 1.

## The new rates

Under the new law, student loan interest rates will be tied to the 10-year Treasury note, plus an added amount. For the current academic year (July 1, 2013, through June 30, 2014), this formula results in a fixed rate of:

- 3.8% for undergraduate students borrowing subsidized and unsubsidized Stafford Loans
- 5.4% for graduate students borrowing unsubsidized Stafford Loans
- 6.4% for parents borrowing PLUS Loans

The rates are determined as of June 1 each year and are locked in for the life of the loan. There is also a cap on interest rates: 8.25% for undergraduates, 9.5% for graduate students, and 10.5% for parents.

## Key details

	New rate	Old rate	Eligibility	Borrowing limits
<b>Stafford Loan (subsidized)</b>	3.8%	6.8%	Undergraduates with demonstrated financial need	For dependent undergraduates: 1st year: \$5,500 (\$3,500 subsidized) 2nd year: \$6,500 (\$4,500 subsidized)
<b>Stafford Loan (unsubsidized)</b>	3.8%--U 5.4%--G	6.8%	Undergraduates and graduate students without financial need	3rd, 4th, 5th year: \$7,500 (\$5,500 subsidized) Max: \$31,000 (\$23,000 subsidized) For graduate students: \$20,500 per year (unsubsidized only); max \$138,500 (\$224,000 for health professionals)
<b>PLUS Loan</b>	6.4%	7.9%	Parents of dependent undergraduates and independent graduate and professional students	Total cost of education, minus any financial aid received by parent or student



*The federal government pays the interest on subsidized Stafford Loans while the student is in school, during the six-month grace period after graduation, and during any loan deferment periods. With unsubsidized Stafford Loans, the student pays the interest during these periods. Eligibility for subsidized Stafford Loans is based on financial need, as determined by the federal government's financial aid application, the FAFSA.*

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