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STUDENT LOANS

Rates on Federal Student Loans Are Falling

Your Money Adviser

By ANN CARRNS JUNE 24, 2016

COLLEGE students will get a bit of a break for the coming academic year: Interest rates on new federal student loans they take out are dropping.

As of next Friday, the rate on direct loans for undergraduates will be 3.76 percent. That will apply whether the loan is based on financial need — “subsidized,” in federal loan lingo — or not. That rate is down from 4.29 percent for loans that were taken out during the borrowing year that concludes on June 30. (Rates are set annually for new loans, but the rates remain fixed for the life of the loan.)

The rate on direct loans made to graduate students will be 5.31 percent, down from 5.84 percent. The rate for Plus loans, made to the parents of undergraduates, or to graduate students, is 6.31 percent, down from 6.84 percent.

“For people borrowing for this coming school year, rates will be lower than they were a year ago,” said Lauren Asher, president of the Institute for College Access & Success. That may change in coming years, she said, depending on economic conditions, but it is a positive shift.

For borrowers, any bit of good news, even if temporary, is welcome. The burden of student debt has ballooned to more than \$1 trillion nationally. College graduates

in 2014 had an average of \$29,000 in student loans, according to the Project on Student Debt, an arm of Ms. Asher's organization.

Fidelity Investments said a survey of participants in its workplace retirement plans found that one in three carried student debt; of those, 80 percent said student loans affected their ability to save for retirement.

So Fidelity's research and development arm, Fidelity Labs, is testing an online student debt tool that aims to help borrowers understand their loans and repayment options. The tool, still in development, lets borrowers manage their loans in an online hub and offers graphic displays to help them visualize the financial impact of, say, making extra payments. (Borrowers don't have to be Fidelity clients to join the pilot.)

Bianka Recinos, a 31-year-old family planning counselor in Boston, graduated from college in 2008 and has \$65,000 in student debt. She said she had tested Fidelity's tool and liked that it displayed all her loans in one place and showed the total amount she owed.

She also said the tool had informed her about government repayment programs, like one that can potentially lead to forgiveness of student debt, based on work in certain public service jobs. "I had never heard of them," she said. Her job may qualify, she said, so she is following up with her employer.

The site also provides information about refinancing student debt through private lenders. (Fidelity says there is no fee paid to Fidelity if someone refinances with one of the lenders).

Ms. Asher said she had not seen Fidelity's new tool, but she noted that, in general, borrowers should be cautious about refinancing federal loans into private loans. While some financially secure borrowers with top-notch credit may benefit, private loans are riskier because they don't carry important consumer protections that federal loans do, such as the ability to tie payments to your income or have payments postponed if you run into financial trouble.

More information about repayment options is available from the Consumer Financial Protection Bureau, which is developing a student loan “payback playbook.”

Here are some questions and answers about student loans:

How are the rates on federal student loans determined?

Under rules set by Congress in 2013, fixed rates for new loans are set each summer, based on spring rates for the 10-year Treasury note (1.71 percent for the 2016-17 school year), and a fixed extra rate depending on the type of the loan.

Can I have the interest rate on my student loan lowered by paying automatically?

Yes. If you sign up for automatic debit, you can have your interest rate reduced by 0.25 percent.

Are there other fees for borrowing federal student loans?

Most federal loans have origination fees that vary depending on the type of loan. Fees range from 1 to 4 percent, approximately, of the loan amount.

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