The U.S. Federal Student Loan Program: What Students and Families Should Know About Federal Student Aid

In recent months, the U.S. financial crisis has made it harder for some lenders in the federally guaranteed student loan programs to secure the funding needed to make new federal student loans. It is important for families to know that, so far, no eligible student or parent has been denied a federal student loan, and Congress is taking action to make sure this continues to be the case. The following fact sheet is intended to provide students and families with helpful information about the availability of federal student aid.

The federal student loan programs: a quick overview of how they work

The U.S. Department of Education operates two federal student loan programs: the Federal Family Education Loan Program (FFEL) and the Direct Student Loan Program. Loans offered through the two programs carry the same interest rates, terms and conditions for borrowers, and are generally much cheaper than private loans. Many FFEL lenders also offer private student loans.

Under the FFEL program, the federal government guarantees and subsidizes the loans that lenders issue to students and parents. Under the Direct Loan program, the federal government offers the loans directly to students, securing loan capital from the U.S. Treasury. It is up to colleges and universities to determine which federal college loan program they will participate in: the FFEL program, the Direct Loan Program, or both.

What does it mean for students and families if some lenders pull out of the federal student loans programs?

In reality, very little. There are more than 1,500 lenders participating in the FFEL program. As some lenders drop out of the program, others can step in to originate new loans. The Direct Loan program does not rely on lenders to issue loans to students and therefore is completely unaffected by the credit crunch. In the event that a large number of lenders pull out of the federal student loan program, the Direct Loan program is one backstop that will provide students with continued access to federal loans.

In addition, Congress is working to make it easier for guaranty agencies (non-profit organizations that help the government run the FFEL program) to provide federal loans to students who can’t find a lender willing to provide a FFEL loan. The loans made by guaranty agencies would be offered at the exact same terms and conditions as loans offered by traditional FFEL lenders, and borrowers would not be burdened by additional paperwork or applications.

Congress just enacted a new law to further help families access the federal aid they need to pay for college. This law increases the borrowing limits on unsubsidized federal student loans for undergraduate students by $2,000 each year. The law also gives parents who borrow federal college PLUS loans more time to begin repaying those loans. And the law makes it easier for parents feeling strained by the current housing market and rising medical costs to secure loans for their children.

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What should I do if I can't find a lender willing to offer me a federal student loan?

First, contact your college financial aid office. Most colleges and universities work with many lenders, and are currently working to ensure that the lenders they use will continue to be able to provide federal student loans for the coming school year.

If your financial aid office isn't able to provide you with additional lender options, you can also contact your state guaranty agency. For a list of guaranty agencies in each state, click here.

Finally, you can also contact the Office of Federal Student Aid at the U.S. Department of Education which operates the nation's federal student aid programs runs a toll free information center to answer questions about financial aid.

Federal Student Aid Information Center (FSAIC) . . . **1-800-4-FED-AID (1-800-433-3243)**
TTY users (for the hearing-impaired) can call **1-800-730-8913**
Callers in locations without 800 number access . . . . . **1-319-337-5665** (not a toll free number)

Why should students take advantage of federal loans before taking out private loans?

Interest rates on all federal Stafford loans carry a fixed interest rate of 6.8 percent, while interest rates on more expensive private loans can run as high as 19 percent. In addition, private loans often have variable rates that can result in unexpectedly high monthly payments. In contrast, federal loans will stay fixed at the same low rate over the life of the loan. Studies show that many private loan borrowers haven't fully maximized their federal student loan options before borrowing private loans – meaning students could be missing out on more affordable loans to help pay for college.

Under a law enacted by Congress, the College Cost Reduction and Access Act, the interest rates on subsidized (awarded based on financial need) federal Stafford loans for undergraduates decreased to 6 percent on July 1, 2008, down from the previous rate of 6.8 percent. The interest rates on these loans will continue to decrease over the next three years, until they reach 3.4 percent.

What else is Congress doing to help make college more affordable?

Congress recently enacted a law, the **Ensuring Continued Access to Student Loans Act** to protect families' federal student loan access amidst the struggling credit markets, at no additional cost to taxpayers.

Last year, Congress enacted the **College Cost Reduction and Access Act**, the single largest increase in college aid since the GI bill. The law cuts interest rates on need-based federal student loans, increases the Pell Grant scholarship for low-income students by more than $1,000 over the next five years, makes federal loans more manageable for borrowers to repay, provides up-front tuition assistance for undergraduate students who commit to teaching, and more. The law carries no new cost for taxpayers.

In addition, Congress just enacted legislation that builds on this effort to make college more affordable by reforming our higher education programs so that they operate in the best interests of students and families. **The Higher Education Opportunity Act** addresses rising college tuition prices, simplifies the FAFSA application process, makes textbook costs for manageable for students, cleans up unethical practices in the student loan industry, and provides critical protections for borrowers of both federal and private loans.