

October 27, 2011

## President Obama Announces Plan to Ease the Burden of Student Loans

Yesterday, President Obama announced a new initiative under the Consumer Financial Protection Bureau to help students better manage their federal student loans. Originally part of President Obama's fiscal year 2012 budget proposal, officials say the costs of the "Know Before You Owe" initiative would be offset by the elimination of federal subsidies to private banks who provide student loans once the loans are moved under the federal Direct Loan program. The proposal has two major components:

### Student Loan Consolidation

- Students with multiple student loans would be able to consolidate them into one loan through the federal Direct Loan program. Those with both federal loans and government-backed bank loans will have their interest rate reduced by half a percent, and those with only federal loans will receive a quarter of a percent interest rate reduction. The Administration estimates that about 5.8 million students could qualify for loan bundling.

### Easing of Income-Based Repayment

- Currently, recipients of income-based repayment loans pay a maximum of 15 percent of their discretionary income. That percentage was due to come down to 10 percent in 2014, but that date would be moved up to January 2012 under the new plan. Administration officials said that up to 1.6 million low-income students would be able to reduce their monthly payments by as much as \$200, although only about 450,000 students have signed up for income-based repayment since the policy took effect in 2009. There are approximately 36 million people currently paying off student loan debt in the U.S.
- For students with loans in 2012 and at least one of the previous four years, any remaining federal student loan debt would be forgiven after 20 years – 5 years sooner than the current law provides.

The initiative echoes concerns of grassroots movements which have been calling for student debt relief; education and student advocates hailed it as a boon to financially-strapped students. President Obama said that giving student borrowers more money for home ownership, small business start-ups, or retirement will "give the economy a boost." Some experts pointed out that it may not be enough to make up for the doubling of student loan interest rates, set to take effect in July 2012. The American Council on Education estimates that the average borrower will end up paying \$5000 more in interest on \$24,000 of debt over ten years due to the rate increase.

## Additional Information

- Read a blog post on the “Know Before You Owe” initiative from Education Secretary Arne Duncan and Domestic Policy Advisor Melody Barnes at the White House website:  
<http://www.whitehouse.gov/blog/2011/10/26/we-cant-wait-help-americas-graduates>
- Visit the Know Before You Owe website:  
<http://www.consumerfinance.gov/students/knowbeforeyouowe/>

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