



Student Loans Becoming Scarce

Published September 20, 2011 | Bankrate.com

If you're counting on the federal government to pay for part of your child's college education, beware. The available money may be decreasing quickly. Congress finally came to an agreement to raise the nation's debt ceiling recently, but not without major budget cuts. The Budget Control Act of 2011 includes immediate cuts to federal student aid, and experts say additional cuts to federal student loans may be coming.

"Student aid is still at risk," says Mark Kantrowitz, publisher of the FinAid and Fastweb websites and author of "Secrets to Winning a Scholarship." "It's a big target, so there's a high likelihood of additional cuts."

Good News and Bad News

The Pell Grant program, which has been operating with an \$18.3 billion shortfall, received a boost from the Budget Control Act, which allocated an additional \$17 billion to finance the program. While the money won't expand the Pell Grant program, it will help to maintain the program at its current grant levels.

The bad news is the money to boost the Pell Grant program was raised by making cuts to the federal student loan program, eliminating the interest subsidy on loans to graduate students for loans after July 1, 2012, and eliminating the Education Department's Direct Loan Program repayment incentives.

Before the act, graduate students who received subsidized student loans could have portions of the accruing interest waived by the federal government, says Ryan Franklin, a certified public accountant for Moss Adams Wealth Advisors in Seattle. The Act's elimination of this subsidy and other smaller loan origination fee rebates was estimated to raise \$21.5 billion for the federal government.

"The net result of these changes was a cut in education spending of around \$4.5 billion," Franklin says.

Eliminating subsidized student loans for graduate and professional students means interest on their loans will begin to accrue while they are in school. "The rationale is that these students have been in the work force and potentially have the ability to increase their earnings," says Patrick Kandianis, co-founder of SimpleTuition, a website providing information and resources about paying for college.

"A graduate student with the average amount of student loans (\$17,500, of which \$8,500 is subsidized) could now owe as much as \$600 of interest per year while in school. This amount is part of the principal upon repayment at a federal rate of 6.8%," Kandianis says.

In addition to the elimination of federally subsidized loans for graduate and professional students, the Budget Control Act also eliminated prompt payment discounts for federal Direct Loan and PLUS Loan borrowers as of July 1, 2012. Direct loans, issued by the federal government to the student through the U.S. Education Department, previously provided borrowers with an interest rate reduction for using automatic debit repayment. PLUS Loans, unsubsidized loans to parents to help pay for their child's education, previously offered a rebate of the origination fee if borrowers made their first 12 payments on time.

Outlook For the Future

In addition to immediate spending cuts, the Budget Control Act includes a provision to cut federal spending by \$1.2 trillion over the next decade, but it doesn't specify where. A bipartisan panel will recommend where cuts should be made, and it's likely student

Introducing our exclusive
GO PROSM trading offer*

- 90 days of free trades
- Professional-grade trading tools
- Access to trading specialists

GO PRO NOW 

*Offer valid for new and existing customers. Restrictions apply. [Click here](#) to view Offer Rules. Turn hereSM
Fidelity Brokerage Services, Member NYSE, SIPC
© 2011 FMR, LLC. All rights reserved. 578013.1 

ADVERTISEMENT

financial aid will be included.

Several potential cuts to federal loan programs could be included in upcoming budget decisions. Eliminating subsidized interest for undergraduate students would save the country \$4 billion per year.

Eliminating the Federal Supplemental Educational Opportunity Grant program, which awards money to undergraduates with exceptional financial need with no need to repay, would save \$1 billion per year. And eliminating the Federal Work-Study Program, which provides money that is earned through part-time employment to assist students in financing the costs of postsecondary education, would save \$1 billion per year.

"We may lose all federal student aid programs except for the Pell Grant, but it's likely that we'll see some tightening of eligibility standards for the Pell Grant," Kantrowitz says.

The Budget Control Act required the installment of a bipartisan committee to develop legislation to achieve at least \$1.5 trillion in future deficit reduction by Thanksgiving. If the committee doesn't come to an agreement on spending cuts or if Congress doesn't approve the agreement, uniform cuts will be made across all federal programs. If that happens, the student aid programs would still exist but would offer less financial aid.

"There's a significant possibility (the committee) won't reach (an) agreement," Kantrowitz says. "In 2008, the maximum Pell Grant had a \$69 cut due to an across-the-board funding cut. It happened then. It could happen now."

As students and parents watch for additional cuts to federal student aid programs, it's important to look for additional financial sources including savings, grants and scholarships.

"College tuition continues to grow at a rate of 9% or more per year in many states, with no prospects of slowing down," Franklin says. "Families should begin planning and saving for this expense as early as possible."

 Print  Close

URL

<http://www.foxbusiness.com/personal-finance/2011/09/20/student-loans-becoming-scarce/>

[Home](#) | [Video](#) | [Markets](#) | [Industries](#) | [Investing](#) | [Technology](#) | [Personal Finance](#) | [Home Office](#) | [Travel](#) | [On Air](#) | [Small Business](#) | [RSS Feeds](#) | [Mobile](#)

| [Contact Us](#) | [About Us](#) | [FAQs](#)

| [Fox News](#) | [Advertise with us](#) | [Jobs at FOX Business Network](#) | [Internships at FBN](#)

Terms of use. Privacy Statement. For FOXBusiness.com technical issues write to foxbusinessonline@foxbusiness.com; for all other feedback, write to feedback@foxbusiness.com.

Quotes delayed at least 15 minutes. Market Data provided by Interactive Data (Terms & Conditions). Powered and implemented by Interactive Data Managed Solutions. Company fundamental data provided by Morningstar. Earnings estimates data provided by Zacks. Mutual fund data provided by Lipper. Economic data provided by Econoday. Dow Jones & Company Terms & Conditions.

This material may not be published, broadcast, rewritten, or redistributed. © 2011 FOX News Network, LLC. All rights reserved. All market data delayed 20 minutes.