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Cost Of Student Loans Set To Double

Area Colleges Hope For Last-Minute Reprieve From Congress

Posted: February 10, 2012
By EMILY SHARRER

HARRISONBURG — When Blue Ridge Community College student Alice Heitzenrater, 22, transfers to a four-year college next year, she's likely to see the cost of her education go even higher, as interest rates on subsidized college loans are set to double.

Heitzenrater, a work-study student in BRCC's financial aid office, has no loans now, but assumes she'll need one when she's enrolled at a four-year institution, because of the higher tuition costs.

But if she takes out a college loan after July 1, the interest rate she'll pay will rise from 3.4 percent to 6.8 percent unless Congress takes action to stop the increase.

"I just don't want to be in debt for the rest of my life with student loans," said Heitzenrater of Waynesboro.

The doubling in interest is due to the expiration of the College Cost Reduction and Access Act of 2007.

Under the act, the interest rate on federal subsidized loans, also known as Stafford loans, was reduced from 6.8 percent to 3.4 percent. The reduction, however, was



Michele Hensley, director of financial assistance at Eastern Mennonite University, helps a student handle her financial aid questions on Thursday. If lawmakers don't take action, college administrators and students could soon be dealing with a doubling in college loan interest rates. (Photos by Nikki Fox / DN-R)



Eastern Mennonite University's Financial Assistance Office says nearly all EMU's students receive assistance. Direct aid from the university is a means of keeping "the cost of education down as much as we can in the absence of federal and state aid growing,"

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approved for five years, meaning it expires this July.

says Michele Hensley, EMU's director of financial assistance.

Scott Morrison, director of financial aid at Bridgewater College, gave an example of what the implications of the higher interest rates would be for students.

A student with \$20,000 in subsidized loans on a 10-year repayment plan is paying \$200 a month now, Morrison said. With the rate increase, that payment would go up by \$30 a month. Over 10 years, that's \$3,600 more in interest.

The act's expiration also will mean graduate students will no longer be able to receive subsidized loans, and interest will begin accruing immediately following graduation, rather than six months after graduation.

Students will still have a six-month grace period before having to begin payments.

"When they get out and they start repaying these loans, that's when they're really going to start seeing an increase," said Brad Barnett, senior associate director in the financial aid office at James Madison University.

Area financial aid office officials at Bridgewater College, JMU and Eastern Mennonite University are informing students and parents about the potential increase in the interest rate, but hope Congress will keep the loans more affordable.

U.S. Rep. Bruce Braley, D-Iowa, has introduced a bill that would extend the 3.4 percent interest rate.

Still, even if the rate doubles, Barnett said, subsidized loans will continue to be a better option than unsubsidized ones, which collect interest while borrowers are still in school.

"We're still hopeful that perhaps there will be some legislation to have a reduction to the rates," Morrison said.

Barnett estimated that more than half of JMU's students receive some form of financial aid, while Michele Hensley, director of Eastern Mennonite's financial assistance office, said nearly all EMU students do.

"A lot [of financial assistance comes] from EMU," Hensley said. "We do that as a way to keep the cost of education down as much as we can in the absence of federal and state aid growing. ... The amount that the government has been giving for financial aid has been concerning in general."

Loan debt becomes an even bigger problem during a down economy, when graduates are having trouble finding jobs right out of the gate.

"Colleges have to be worried about that and we certainly are," said Hensley, who said the parents she's informed of the possible interest rate hike have had similar reactions. "They're flabbergasted because that doesn't seem like a great interest rate anymore."

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