Regulatory Changes That Have Affected Student Loans

The rising costs of higher education and marked increases in student loan debt have been the catalyst for numerous student loan reforms in recent years. Some of the new laws increase consumer rights and make it easier to manage loan repayment. Others eliminate provisions that many students found beneficial.

Extension of Low Subsidized Undergraduate Loan Interest Rates

Undergraduate students with subsidized Stafford loans disbursed between July 1, 2012 and July 1, 2013 receive a fixed interest rate of 3.4 percent over the life of the loan. Although this legislation serves as an extension of a previous law, congress only guaranteed this rate as a temporary measure. It may increase after July 2013.

Easier Income Contingent Payments

In the past, borrowers in the income contingent repayment program put up to 15 percent of their discretionary income toward their student loans and had any remaining debt forgiven after 25 years of steady payments. However, a 2012 executive order by president Obama applied reforms of the income contingent repayment program ahead of the previous 2014 implementation date. The "Pay as You Earn" program reduces your payments to 10 percent of your discretionary income with forgiveness granted after 20 years. Borrowers in public services careers, such as law enforcement, nursing and teaching, can receive forgiveness of their debt after just 10 years.

Higher Origination Fees

With the exception of Perkins loans, all federal student loans carry origination fees that are deducted directly from the loan. Both undergraduate and graduate Stafford loans, whether subsidized or unsubsidized, have a one percent loan origination fee. The Parent and Graduate PLUS loans origination fee is four percent. Previously, a rebate of 0.05 percent of Stafford loan fees and 1.5 percent of PLUS loan fees were subject to an automatic rebate by the federal government, decreasing the amount deducted from the dispersed loan. However, the Budget Control Act of 2011 eliminated the rebate, leaving you to pay the entire origination fee.

Removal of Interest Grace Periods and Subsidized Graduate Loans

In July 2011, the government removed the subsidized Stafford loan option for graduate and professional students. This means that interest will begin accumulating while you are still in school. Additionally, subsidized Stafford loans disbursed between July 1, 2012 and July 1, 2014 will not qualify for the six-month grace period on interest after graduating or dropping below half-time enrollment. Although

Interest will begin accruing immediately, you still do not have to begin repayment for six months. Depending on future legislation, this restriction may continue beyond July 2014.

Increased Consumer Disclosure Requirements

The Federal Reserve Board also included new laws in the 2010 TILA amendments that regulate the disclosures borrowers receive during the private student loan application process. Now, lenders are required to give you three different disclosures. The first must be included within three days of application and include information about the estimated interest rate and total loan costs, as well as late-payment fees, alternatives to private student loans, and your rights pertaining to private education loans. Lenders must provide the second disclosure at approval. This one provides specific figures for the interest rate and loan costs, and states the 30-day time frame for acceptance. Once you accept, the lender must provide a final disclosure that restates the terms of the loan, gives the dispersal date and explains your right to cancel the loan within three business days.

Mandatory Loan Acceptance and Cancellation Periods

Truth in Lending Act amendments that became effective in 2010 mandated all lenders to provide student loan borrowers with a 30-day window to accept the loan after approval. Similarly, once you accept the loan, federal law requires the lender to wait three business days before disbursing the funds. During this time, you can cancel the loan without penalty or obligation to repay. Both of these regulations allow you to examine the loan agreement, disclosures and other documents to ensure you fully understand the transaction.

These changes affect all student loans. Whether you are a current student, graduate or potential borrower, you must make yourself familiar with the new regulations to ensure that you understand exactly what you're getting and what you'll have to pay back.