

# Direct Loan Interest Rates for 2018-2019

Interest Rates for Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans First disbursed on or after July 1, 2018 and before July 1, 2019			
Loan Type	10-Year Treasury Note High Yield	Add-On	Fixed Interest Rate
Direct Subsidized Loans and Direct Unsubsidized Loans for Undergraduate Students	2.995%	2.05%	5.05%
Direct PLUS Loans for Parents of Dependent Undergraduate Students	2.995%	4.60%	7.60%

## Here's a quick overview of Direct Subsidized Loans:

- ◆ Direct Subsidized Loans are available to undergraduate students with financial need.
- ◆ Your school determines the amount you can borrow, and the amount may not exceed your financial need.
- ◆ The U.S. Department of Education pays the interest on a Direct Subsidized Loan
  - while you're in school at least half-time,
  - for the first six months after you leave school (referred to as a *grace period\**), and
  - during a period of *deferment* (a postponement of loan payments).

## Here's a quick overview of Direct Unsubsidized Loans:

- ◆ Direct Unsubsidized Loans are available to undergraduate and graduate students; there is no requirement to demonstrate financial need.
- ◆ Your school determines the amount you can borrow based on your cost of attendance and other financial aid you receive.
- ◆ You are responsible for paying the interest on a Direct Unsubsidized Loan during all periods.
- ◆ If you choose not to pay the interest while you are in school and during grace periods and deferment or *forbearance* periods, your interest will accrue (accumulate) and be capitalized (that is, your interest will be added to the principal amount of your loan).

## What is interest?

Interest is paid to a *lender* as a cost of borrowing money. Interest is calculated as a percentage of the unpaid principal amount. Unlike other forms of debt, such as credit cards and mortgages, Direct Loans are daily interest loans, which means that interest accrues (accumulates) daily. Depending on whether your loans are subsidized or unsubsidized, you may or may not be responsible for paying the interest that accrues during all periods.

## How is interest calculated?

The amount of interest that accrues (accumulates) on your loan between your monthly payments is determined by a daily interest formula. This formula consists of multiplying your loan balance by the number of days since you made your last payment and multiplying that result by the interest rate factor.

Simple daily interest formula:

$$\text{Interest Amount} = (\text{Outstanding Principal Balance} \times \text{Interest Rate Factor}) \times \text{Number of Days Since Last Payment}$$

## What is the interest rate factor?

The interest rate factor is used to calculate the amount of interest that accrues on your loan. It is determined by dividing your loan's interest rate by the number of days in the year.

## What is capitalization and how does it relate to interest?

Capitalization is the addition of unpaid interest to the principal balance of a loan. Generally, during periods when you are making payments on your federal student loans, your monthly loan payment will cover all of the interest that accrues (accumulates) between monthly payments, and you won't have any unpaid interest. However, unpaid interest can accrue under certain circumstances. For example, you are not required to make monthly payments during a period of deferment, but if you have an unsubsidized loan, interest continues to accrue during the deferment period, and you are responsible for paying the interest. Unpaid interest may also accrue if you are repaying your loans under an income-driven repayment plan, and your required monthly loan payment is less than the amount of interest that accrues between payments.

When the interest on your federal student loan is not paid as it accrues during periods when you are responsible for paying the interest, your lender may capitalize the unpaid interest. This increases the outstanding principal amount due on the loan. Interest is then charged on that higher principal balance, increasing the overall cost of the loan. Depending on your repayment plan, capitalization may also cause your monthly payment amount to increase.