



## Subprime woes to hit student loans

**The subprime crisis is expected to make it harder for students to get low-interest loans, according to a new report.**

January 11 2008: 3:51 PM EST

NEW YORK (CNNMoney.com) -- Students relying on college loans will soon feel the pinch from the subprime mortgage crisis, according to a report by financial aid guide *FinAid* this week.

Not only will subprime borrowers have more trouble securing a student loan, but all student borrowers will be subject to stricter lending practices, according to the financial aid adviser.

Roadblocks could include higher credit scores needed to secure student loans as well as higher interest rates on those loans.

Student lender Sallie Mae ([SLM](#), [Fortune 500](#)) also wrote in a filing with the Securities and Exchange Commission last week that it plans to be more selective in granting loans.

Along with mortgages, student loans and other asset-backed securities started to feel the subprime market's effects as early as last summer, as spooked investors reacted to increasing default and foreclosure rates, *FinAid* reported.

On top of that, lender subsidy cuts as a part of the College Cost Reduction and Access Act passed last year have made federal and private education loans less profitable for lenders, who will likely pass the burden on to borrowers, according to the report.

[Sallie Mae: Who'll get schooled?](#)

While Sallie Mae didn't detail the specifics of how it will tighten lending standards, *FinAid* expects overall private student loan interest rates to be hiked by up to 1 percent to make up for increased costs, and borrowers will need to have a credit score of at least 650 to qualify for a private student loan, up from the previous requirement of 620.

Lenders are also expected to cut loan discounts and increase minimum balance requirements for loan consolidation. Lenders may also introduce incentives for borrowers to interest payments while they're in school, or increase costs for borrowers who don't, *FinAid* said.

Among the upcoming changes to federal student loan policies, *FinAid* expects that loan consolidation will be discouraged, minimum balances for loan consolidation will increase to about \$10,000 - and loan discounts like origination fee waivers and consolidation discounts will be cut.

Lenders are also expected to shift most marketing dollars from federal Stafford and PLUS loans to private student loans, which costs borrowers more.

"Borrowers should not consider private student loans until they have exhausted their federal education loan eligibility," *FinAid* advises.

"As always, borrowers should try to minimize their debt. Live like a student while you are in school, so you don't have to live like a student after you graduate," the student loan adviser wrote.