State fee for student loans raised

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Beginning in July, Louisiana students will have to pay a higher fee to get state-backed loans from their local banks.

The Governor’s Special Commission on Education Services has decided to start charging a 1 percent insurance fee on money borrowed through the Guaranteed Student Loan Program.

Revenues from the fee will be used to help pay off loans that some students refuse to repay.

The state fee will be added to a 5 percent surcharge now assessed by the federal government.

Both fees will be subtracted from the loan before the student receives his or her money for school.

For instance, a student borrowing the maximum $2,500 per year for college or vocational training now pays a federal fee of $125. Beginning July 1, a student borrowing the same amount would pay an additional $25 fee to the state.

Rather than receive a check for $2,500, the student will receive a check for $2,350 — but still must pay back the full $2,500 after leaving school.

Richard Petrie, director of the loan program, said the commission decided that students should start paying for a portion of the loans that are defaulted by other students.

The state will pay banks an estimated $3.5 million for defaulted loans this year, Petrie said. The default rate, once near 10 percent, has been reduced to about 5 percent with improved collection procedures, he said.

Petrie said Louisiana is the last state to start charging an insurance fee.

The lower-interest loans — now set at 8 percent — are available to Louisiana attending colleges, universities and vocational schools.

Students apply to their local banks for the loans. The state and federal governments guarantee the loans and pay the interest while a student is in school. To encourage banks to lend the money, the federal government pays a surcharge in addition to the regular interest.

After leaving school, a student must begin paying the principal and interest on the loan. Typically, loans are paid off in five to 15 years.