



Private Student Loan Interest Rate Index Changes

Background

Soon, part of the way the interest rate is calculated on your private student loan will change. This is a necessary change that impacts many loans with variable interest rates. Congress has determined that the new rate benchmark is comparable to the previous one. The new rate does not impact any other terms, conditions, or benefits associated with your student loan.

What is changing?

The benchmark used to calculate the variable interest rate of your student loan will change from the London Inter-Bank Offered Rate (LIBOR) to the Secured Overnight Financing Rate (SOFR).

Following the direction of Congress, most LIBOR-based loans are transitioning to using SOFR. Since this is a shift to a SOFR-Based Spread-Adjusted Index, this is not a refinance of your student loan; it is merely a change to the benchmark we use to determine your variable interest rate. This will happen automatically, and you should not notice a difference in the way we service your loan.

In developing this index, these regulators and industry groups have taken steps intended to make the transition away from LIBOR as seamless as possible. Therefore, the switch from LIBOR to SOFR is expected to have a relatively limited effect on most borrowers, but there is a chance it could impact your monthly payment and your costs. We will not know the new SOFR plus spread adjusted rate or how it will affect your monthly payment until after June 30, 2023 when the transition is mandated to occur.

You aren't alone. This change impacts millions of borrowers like you, with all lenders across the country.

What do I need to do?

You do not need to do anything today related to this change.

We will handle the transition for you, just as the entire banking and lending industry is doing for all their customers.

Will my monthly payment change?

As a variable rate loan, your monthly payment amount has changed on a regular schedule since your loan was disbursed. It will continue to change on a comparable schedule according to the terms and conditions of your loan. Only the benchmark used to calculate the variable interest rate will change.

What is my new interest rate?

Your interest rate remains variable. It will change with a frequency comparable to how it changed before, based on the terms and conditions of your loan.

We will calculate your interest rate using the SOFR-Based Spread-Adjusted Benchmark Replacement Rate plus whatever margin you originally agreed to when taking out the loan. The Benchmark Replacement Rate will be the following: in place of the 3 month tenor of USD LIBOR, it will be the equivalent tenor of Term SOFR plus the applicable tenor spread adjustment.

Will this impact my other student loans?

Federal student loans are not impacted by this change. Those loans have interest rates set by law, so no update is needed.

Other private education loans may be impacted. If your loans used LIBOR, they will change to a new benchmark index.

Where can I go to see the new SOFR rate?

The Federal Reserve Bank of New York publishes the SOFR rate that is used to create the SOFR- Based Spread-Adjusted Index.

Can I opt-out or are there other options?

No, you cannot opt out.

LIBOR will not be available after June 30, 2023, and Congress has provided the guidance on how we can adjust the benchmark for your loan. This ensures that both you and your loan holder have a predictable and stable way to calculate your rate.

Other new loans may have a different benchmark, so you can always explore your refinancing options. A new, refinanced loan will have its own interest rate calculation (still not LIBOR), but your new lender may use an option other than one that is SOFR-based.

Could this happen again?

Federal regulators and Congress took steps to reduce the chances of the benchmark changing again. Although there is always the possibility of a similar change in the future, you should not experience any disruptions.

Additional Questions

Over the past several years, the LIBOR benchmark has become less reliable and more prone to issues. As a result, experts like the Alternative Reference Rates Committee identified several alternative methods to calculate interest rates. Since then, regulators and Congress have laid out a plan to transition away from LIBOR. You should see this change reflected in financial markets and on your variable interest rate loans by the middle of 2023, at the latest.

Why SOFR?

In 2022, Congress passed a law that made SOFR the preferred alternative to USD LIBOR. SOFR is a broad measure of the cost of borrowing cash overnight—it is comparable to LIBOR. It is collateralized (made secure) by U.S. Treasury securities in the financial market. To adjust for small differences between LIBOR and SOFR, Congress also legislated a spread adjustment to make them even more comparable; that new benchmark is known as the SOFR-Based Spread-Adjusted Index.

How does SOFR differ from LIBOR?

SOFR has several characteristics that make it much safer and more stable than LIBOR. It is:

- Based on an active underlying market with a diverse set of borrowers and lenders
- Based entirely on transactions (not estimates)
- Produced in compliance with international best practices
- Included in multiple market segments, to ensure robust transaction volumes in a wide range of market conditions

Questions? We're here for you

(877) 354-2629, Monday through Friday 7am - 7pm (CT)