US: Threadbare “college affordability” bill passes in the House

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26 January 2007

The Democratic-controlled House of Representatives passed a bill January 17 proposing a halving of interest rates on federally subsidized student loans. Part of the Democrats’ vaunted “first 100 hours,” HR5 is supposed to represent the fulfillment of a campaign promise to rein in spiraling education costs and debt burden.

Specifically, the legislation would reduce interest rates on need-based federal loans for undergraduate students from 6.8 percent to 3.4 percent over the course of five years. In 2007, the rate would decline to 6.12 percent; to 5.44 percent in 2008; 4.76 percent in 2009; 4.08 percent in 2010; and finally to 3.4 percent in 2011. Approximately 5.5 million federal Stafford subsidized loan borrowers would be affected by the change. Senate hearings on the bill are expected to begin January 25.

The bill’s backers have extolled the rate cut as a significant first step, but in fact the proposal reveals the Democrats’ unwillingness and inability to initiate reforms of any substance. The student loan proposal represents the very least they can do in regard to lessening education costs.

First of all, the rate reduction proposal in its current form is temporary. Once the rate is lowered to 3.4 percent, it will remain in effect for a mere six months before reverting to an unspecified rate. Democrats contend that this was the result of a compromise aimed at holding the cost of the legislation to $6 billion, and that the cut will be made permanent before the rate resets.

The bill actually does relatively little to lighten debt loads. According to an analysis of the bill by the US federation of state Public Interest Research Groups, if the lower rate is made permanent as the Democrats assure, the average borrower starting college in 2007 would save $2,300 over 15 years, beginning after graduation.

The College Board’s most recent *Trends in College Pricing* found that in 2003-2004 two thirds of college graduates financed their educations with loans. Of those, the median debt level for bachelor’s-level graduates was $19,300.

Moreover, double-digit percentages of the borrowing population attending both private and public universities face more than $30,000 in debt upon graduation. Graduate and post-graduate students frequently face more than $50,000 in debt, much of it outside the scope of the interest rate reduction bill.

Nor does the bill address the millions of students who rely upon either unsubsidized federal loans or private loans to finance their education. The College Board estimates that 20 percent of all college students in the US relied on private, as opposed to federal, loans in 2005-2006—not including those using credit cards for supplementary funds. This segment constituted 12 percent of the borrowing population just five years earlier, and only 4 percent in 1995-1996. These borrowers are subject to unpredictable and often steep interest rates and repayment plans.

Predictably, even this minimal measure generated vociferous opposition concentrated in the lending industry and various right-wing think tanks speaking on its behalf. Under the legislation, funding to compensate for the rate cut would be generated from a slight reduction in government subsidies to private lenders, amounting to one tenth of 1 percent of the rate of return to the largest lenders.

Yet, the lending consortium, America’s Student Loan Providers, reacted to the bill by declaring, “Proposing to hit loan providers again may be good politics, but it’s the students and families they serve who would ultimately pay the price.”

Shortly before the bill came to the floor, the White House Office of Management and Budget released a statement suggesting that a cut in interest rates would only exacerbate the problem by “encouraging more loans” and stimulating further tuition hikes. “Instead,” it stated, “the Administration would support efforts to direct savings to additional grant support for low-income students.”

Coming from an administration that has overseen five years of stagnation in federal Pell Grant aid awards, such a recommendation is nothing but hypocritical lip service. The Senate version of the House bill is expected to contain a provision raising the maximum Pell award to $5,100. Currently, the maximum award for the income-contingent Pell Grant is $4,050, only $300 more than it was in 2001.

Meanwhile, tuition has increased by 40 percent over the past five years. College Board figures indicate that annual in-state tuition and fees (including room and board) for a four-year public university stands at an average total of $12,800 in the current academic cycle; at four-year private schools, the average is $30,400. Transportation, books, and other expenses raise the cost of school by $3,000-$4,000, according to the College Board.

In the last 15 years, average college tuition has nearly doubled after adjusting for inflation. A major cause of rising tuition has been the corporatization of the university system, which has often transformed a not-for-profit social mandate into a lucrative enterprise.

State funding of universities has also declined, contributing to this drive for other sources of money and a preoccupation with solvency. According to a recent report from the Department of Education, state funding of universities was at the lowest level in three decades in 2006.

Without such subsidies, university administrators insist that tuition and fee hikes, coupled with cuts to academic programs, must be introduced to make up the difference. The burden is placed squarely on the backs of students and their families.

The Democratic Party’s approach to these problems is inadequate and unserious. Like other items on the agenda during the “first 100 hours”—such as the loophole-riddled lobbying restrictions, the minimum wage increase and budget balancing measures that leave military spending off the table—the student loan rate cut is largely cosmetic. Under conditions of deteriorating living standards, record levels of inequality, massive tax cuts for the rich that they have no intention of repealing, the Democrats have proposed a paltry measure.