

Obama to sign bill with cuts to student loans

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Last Friday, Congress passed a wide-ranging bill with numerous changes for student loan aid. It maintains the current interest rate on subsidized student loans for undergraduates, but decreases eligibility while increasing overall costs to students. All these measures were part of a larger bill that also dealt with highways and flood insurance, and passed with bipartisan support.

The Republican-controlled House approved the bill 373-52, while the Democrat-controlled Senate passed it 74-19. The provisions of the bill do nothing to alleviate the debt crisis facing millions of students and much to exacerbate it. President Obama plans to sign the bill into law at a White House ceremony later this week.

For 7.4 million students receiving subsidized Stafford loans from the federal government, the interest rate will remain at 3.4 percent for one more year, instead of jumping to an unsubsidized rate of 6.8 percent. However, the number of students eligible for such loans is decreased while the overall cost to students is increased.

Subsidized loans will no longer be available to graduate students, so interest will accrue while these students are still in school. According to the American Council on Education, this will increase the amount paid per loan by an average of \$7,000 over the life of the loan. Families of students are also going to be required to pay more. The amount of financial aid available to students depends on their families' income. With the new law, the cutoff to have no expected family contribution has been reduced from \$32,000 to \$23,000—the official poverty line for a family of four.

Further, the interest subsidies for the loans will now be limited to six years for students seeking a bachelor's

degree and three years for an associate degree. This is expected to cost students nationwide an additional \$1.2 billion. Pell Grants are to be similarly time restricted. As colleges cut more of their classes to deal with budget cuts, it will become harder and harder for students to finish their degrees on time. According to the College Board, the average time for a student to complete an associate degree is 39 months.

Any student who does get a subsidized loan will have to pay more, now that the “grace period”—during which the government covered interest payments for six months after graduation—has been eliminated.

These cuts are a concerted effort by both parties to collect more money from students and workers. A report from the Department of Education shows that, beginning in 2009, the federal government has made an average of \$37 billion a year from student loans. In effect, there is no overall subsidy for financial aid. Instead, the students too poor to pay for their own education are subsidizing the government. The same report predicts a 20 percent return on all federal loans made in 2013.

In his bid for reelection, Obama promised to maintain the current interest rate for undergraduates, but agreed from the beginning to fund the necessary \$6 billion needed to do so through cuts elsewhere. As in the case of the Affordable Care Act, the Obama administration will claim this open attack on students as a victory for the middle class. According to Reuters, he will sign the bill this Friday before a select group of college students and construction workers. The crisis facing students and workers, however, cannot be solved by a photo-op.

According to the Consumer Financial Protection Bureau, this year student loan debt has surpassed \$1

trillion—a greater amount than the total of credit card or auto loan debt. At the same time, the number of students in default has continued to rise. The New York Federal Reserve estimated in March that one in four student loan borrowers is already behind on payments.

Recent graduates face a deteriorating job market, and have little chance of paying off their debts. According to the Project on Student Debt, the average debt for students graduating in 2010 was \$25,250. That class also had the highest unemployment rate of recent college graduates, 9.1 percent.

More troubling is a report from Rutgers University that found barely half of all recent college grads have found full-time work, and that only half of these jobs required a college degree. With such low job prospects, it is no surprise that the Rutgers survey shows that 40 percent of those graduating since 2009 have paid off none of their debt, and nearly half reported carrying additional debt, such as credit card debt.

The situation facing students will continue to deteriorate as federal and state funding for education are cut, and unemployment remains high. The provisions of the student aid bill are the latest attempt to shift the cost of the economic crisis onto the working class.



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