US student loan interest rates expected to double

Trent Novak
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Beginning on July 1, interest rates on subsidized Stafford loans for college undergraduates are expected to double from 3.4 to 6.8 percent. The increase in the interest rate will disproportionately affect those students who are most in need of assistance and occurs alongside of other factors saddling young people with vast amounts of debt, such as rising tuition costs and increasingly bleak employment prospects after graduation.Subsidized Stafford loans are a special type of federal loan in which the government pays the interest while the student is in school.

Eligibility is determined by need, so these loans are primarily utilized by students from working class or moderate-income backgrounds. Two-thirds of student borrowers receiving subsidized Stafford loans come from families earning less than $50,000 a year, and such loans comprise one-third of total government aid to college students.

The rate increase was originally supposed to take effect last year, but was postponed when Congress passed a one-year extension of the 3.4 percent rate amidst political campaigns leading up to the 2012 election season. Although media outlets commenting on the present rate increase have held out hope that Congress might pass a similar extension this year, financial aid organizations are already calling on their members to tell students that interest rates are going to double come summer.

Signaling that the ruling class cynically used the extension to manipulate public opinion and is now prepared to dispense with all pretenses, Arne Duncan, Obama's Secretary of Education, has openly admitted that the extension was nothing but an "election-year fluke." An article in the *Boston Review* from last November adds that the original extension was significantly coupled with the total erasure of loan repayment "grace periods"—usually a six-month period after finishing school before payment is required—for undergraduate and graduate students. While the rate extension was a temporary initiative that ostensibly lowered government revenue by $6 billion for the year, the elimination of grace periods was a permanent move that is estimated to increase the total burden on debtors by an additional $20 billion.

The *New York Times* and other major publications cite "political tension" between Democrats and Republicans as the explanation for why proposals for another extension are doomed to failure. In actuality, the political wrangling taking place between the two big business parties is solely concerned with cosmetic features of the student loan racket. Both parties are agreed on the essential principle that there is "no money" available for securing the right to an affordable education.

While a small group of House Republicans led by Paul Ryan have made a straightforward call for allowing loan interest rates to double, political consensus is gathering around a budget proposal being advanced by the Obama administration which favors variable interest rate adjustments made on an annual basis according to the "current market rate." An article written in *Inside Higher Ed* earlier this month notes that "Republicans in particular say they like Obama's idea" and names several Republican senators who have introduced similar bills.

The majority of congressional Democrats are cited as being in lock-step agreement, seeing the variable interest rate proposal as a viable "long-term solution," but adding the minor caveat that the 3.4 percent rate should be renewed as a short-term measure.Like most initiatives that have been passed by the Obama administration, the variable interest rate proposal favored by the political establishment amounts to nothing less than a plan to implement sweeping and brutal changes under the guise of “reform” and short-term, temporary gains.

The rationale offered for the proposal is that replacing interest rates established by the government with figures that closely reflect “prevailing market realities” will result in lower costs for students. In reality, while the interest rates on student loans are expected to dramatically lower in the short-term under such a plan, students would be worse off under the assumption that the economy recovers and central banks begin to ratchet up interest rates again. This is the logic guiding both political parties. The ruling class and its representatives see the difficulties faced by students as nothing but an opportunity for extracting more money from them.

Currently, undergraduate student loan borrowers leave college with an average debt of more than $27, 000, with many students graduating with even larger debt burdens. Total student loan debt held by federal and private lenders has surpassed $1 trillion for well over a year. The Obama administration in particular has presided over an enormous growth in this figure, with one-third of the outstanding total accumulated during his years in office.

Young people are confronted with the prospect of being relegated to years of debt servitude. Increasingly, student loans are being used as a way of generating profits private bankers and investors, or for the government in the name of deficit reduction. High interest rates and other financial stresses exert an immense influence on the decisions that students make after they graduate from college, with many desperate to find jobs and unable to pursue a career in fields that interest them or have any relation to the degree they pursued in school. Many more are priced out of higher education altogether.

This is happening while bankers and corporate executives gorge themselves on record levels of profit. Meanwhile, the prospect of another financial crash is already in the making. Private loan holders are presently engaged in securitizing student loans according to the exact same sorts of processes which directed the extension of subprime mortgage loans and caused the collapse of the housing industry before throwing the global economy into chaos in 2008. Student loans are frequently combined into diversified packages and sold to investors as premium financial bargains under the assumption that the future of young people will be a source of ever-growing value and that combining risky debts with more secure ones will prevent any shocks created by individual defaults.

Operating under the belief that most student loans will be repaid eventually, the financial sector of the economy uses these debts as the basis for rabid speculative activity and the generation of lucrative profits.The economic crisis has demonstrated the absolute ruthlessness of the ruling class in advancing programs that promise nothing but destitution and poverty to countless people. Included in these aims is the drive to enrich a tiny minority by feeding on the hopes and dreams of millions of young people.

A solution to student debt is impossible within the current framework. Youth around the world must take up the struggle to overthrow capitalism and establish socialism, a system based on the rational organization of the economy in the interests of human need rather than private profit.