US senators reach tentative deal to increase subsidized student loan rates

Andre Damon
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A group of negotiators in the US Senate said they reached an agreement Wednesday that would increase the interest rates of federally subsidized student loans by pegging them to the US government's borrowing costs.

The agreement came after a Democratic-sponsored procedural vote to keep subsidized student loan interest rates at the previous level of 3.4 percent failed to reach the 60 votes required to overcome a Republican filibuster.

On July 1, the interest rate on federally subsidized loans doubled, from 3.4 percent to 6.8 percent, due to the lapse of a 2007 law. According to the White House, the rate increase would affect nearly 7.5 million low-income students.

The Senate Democrats' proposal to keep subsidized loan rates at 3.4 percent was entirely for show, designed with the certainty that it would be shot down by the Republican majority. The Democrats' real position is that put forward by the Obama administration and accepted by negotiators Wednesday, aimed at doing away with reduced interest rates for low-income students.

Under the agreement, the interest rate on both subsidized and unsubsidized federal Stafford loans would be set based on the US government's 10-year borrowing cost, which stood at 2.39 percent Thursday. Undergraduates would pay 1.8 percentage points on top of this rate, graduate students would pay an additional 3.4 percent, and parents who take on student loans for their children would pay 4.5 percentage points more than the treasury rate. *Inside Higher Ed* reported that "undergraduate loans issued today would have an interest rate of 4.5 percent; graduate loans, 6.1 percent; and PLUS loans, 7.2 percent."

The proposal would set a single rate on both subsidized and unsubsidized student loans, ending the reduced rate on federally subsidized loans, which are given out to students from low- and medium-income households. From 2007 to the beginning of this month, subsidized loan rates had been set at 3.4 percent, while unsubsidized loans, which were available to a broader range of borrowers, were at 6.8 percent.

The *New York Times* reported that senators from both parties are waiting on the Congressional Budget Office to finish analyzing the deal before they bring it to a vote. Once they do, it is likely to pass, as it has already received the support of leading Senate Democrats and closely tracks proposals made by both congressional Republicans and the White House.

While the measure's proponents claim that it would reduce costs for borrowers of unsubsidized loans, this is only under the conditions of the current unusually low interest rates. With the Federal Reserve signaling that it intends to reduce its money-printing operations in the coming period, interest rates have been increasing significantly, meaning that borrowing costs are likely to be even higher for students who take on loans in the coming semesters. If the interest rates on US government debt were to return to the levels seen in the 1990s, borrowing costs for undergraduates would jump to over 8 percent.

"All the projections we have right now show interest rates going up," Ethan Senack of the US Public Interest Research Group told the *Huffington Post*. "This would keep interest rates low next year, but the caveat is that it does this on the backs of future students."

Rates are capped at a maximum of 8.25 percent for undergraduates and 9.25 percent for graduates.

The deal came after figures from the Congressional Budget Office showed that the US government received a record $51 billion in profit this fiscal year from student loan interest. This figure is equal to the combined profits of the four largest US banks, and significantly larger than the profits of either Apple Inc., which received $41.7 billion in profit last year, or Exxon Mobil Corp., which received $44.9 billion.

The Department of Education has taken in $120 billion in student loan interest over the past five years, according to budget documents. Last month, the Congressional Budget Office estimated that the US government would garner $184 billion in profit over the next 10 years.

The total amount of student loan debt, standing at $1.1 trillion, recently eclipsed the total amount of outstanding credit card debt and is the largest form of household debt outside of mortgages.

The deal is entirely in line with the proposals of the White House, which in its 2014 budget called for tying student loan rates to the government’s borrowing costs, arguing that “taxpayers cannot continue to subsidize higher and higher costs for higher education.”

The effect of the proposal will be to create further obstacles to low-income people receiving an education and saddle students and graduates with a lifetime of debt.