

Senators announce bipartisan deal to increase subsidized student loan rates

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A bipartisan group of Senators announced a plan Thursday that would eliminate the difference in interest rates for subsidized and unsubsidized student loans, while allowing interest rates on both types of loans to rise much higher than current levels.

The plan proposes to have student loan rates be derived from the United States' borrowing costs, and allows them to float as high as 8.25 percent for undergraduates, 9.5 percent for graduate students, and 10.5 percent for parents. Senate Majority Leader Harry Reid said the Senate would vote on the deal "as quickly as possible."

Senate negotiators released a similar proposal last week, which was shot down when the Congressional Budget Office estimated it would cost the government even a pittance. Negotiators on both sides stressed that they would not approve the bill if it did not reduce the budget deficit. Consequently, the plan was reworked and would now reduce the budget deficit by \$715 million over ten years by squeezing more money out of indebted young people.

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 new plan proposes to tie the interest rate students pay on their loans to financial markets via the 10-year treasury note. Interest rates would fluctuate with the market rate, and low or middle-income students would not get a lower rate. When legislators, Republican and Democrat, speak of a policy which is "neutral, in terms of fair to taxpayers, fair to students," as Republican Senator Lamar Alexander told the Washington Post, they are in fact looking for a plan that provides the greatest possible benefit to private lenders and the least

expense to the government. The ending of government subsidies to low-income students means that private capital will be able to profit even more fully from the financial bondage of young people and students.

The plan sets the interest rate paid by all federal stafford loan borrowers to 3.85 percent for the first year, lower than the current rate for unsubsidized loans, before they are allowed to rise significantly higher. While the measure's proponents have presented it as a way to save unsubsidized borrowers money, this will only be the case under conditions of the near-zero interest rates maintained by the Federal Reserve. With the Fed signaling its intention to raise interest rates, students' borrowing costs are likely to rise significantly in the coming years.

During the preceding negotiations, several Democratic senators such as Tom Harkin made it known that they would not support the plan until it included firm caps on interest rates students and parents must pay. Posturing aside, the final deal creates caps which "limit" loan payments from students at near usurious levels. Undergraduates would have their rate capped at 8.25 percent and graduates 9.5 percent per year. PLUS loans, which can be taken out by parents of students, would have their rate capped at 10.5 percent annually.

With the support of several key Democrats, the proposal is expected to pass in the Senate without difficulty, most likely coming up for a vote early next week.

Until now, low-and medium-income individuals could qualify for a subsidized loan at a fifty percent discount from the full rate. The ultimate goal being pursued by Congress and the White House is to do away with any differentiation of interest rates based on students' incomes. The House has already passed a bill

with similar provisions to the Senate plan, and lawmakers expect the two versions to be reconciled and passed before the beginning of the fall semester.

Student loans are a rapidly expanding and highly profitable industry. The total amount of student loan debt, now standing at \$1.1 trillion, has eclipsed credit card debt and is the largest form of household debt outside of mortgages.

The Congressional Budget Office reported earlier this year that the US government will receive 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 is significantly higher than the profits of either Apple Inc., which recorded \$41.7 billion last year, or Exxon Mobil's \$44.9 billion.

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 intention of these measures is to further impoverish young people, particularly from working class backgrounds, based on the claim that there is no money for education, even as the major banks are handed \$85 billion a month in free money by the Federal Reserve.



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