US Senate bill ties student loan rate to financial markets

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On Wednesday, the US Senate passed a bill that would effectively tie the interest rates for federal student loans to the financial markets. Championed by the Obama administration and receiving the unified support of the political establishment, the measure was approved by a vote of 81 to 18, with only 16 of 52 Senate Democrats voting against it.

Anticipating limited opposition within its ranks, Democratic leaders preempted any defecting "no" votes by garnering Republican support to help win passage of the bill. The House of Representatives is set to vote on the bill next week. Considering the wide margin of the Senate vote in favor of the bill, and its lauding by President Obama, all indications point to a swift and easy passage for legislation that would, for the first time, tie student loan rates to the markets.

The legislation comes as a reactionary response to the July 1 doubling of the interest rate on federally subsidized loans from 3.4 percent to 6.8 percent, following the expiration of a 2007 law and the two parties' failure to find an agreeable solution to compromise on new terms for the student loan racket.

The bill approved in the Senate calls for setting interest rates using the value of the 10-year Treasury bill, plus a percentage add-on. These rates would be locked in for the life of the loan. Undergraduates would have the lowest rates, which could go up to 8.25 percent, higher than the current fixed rate of 6.8 percent. Graduate students would pay a higher rate that could go up to 9.5 percent, far more than the current rate of 6.8 percent. PLUS loans, available to graduate students and parents of students, would have the highest rate, which could go up to 10.5 percent, higher than the current rate of 7.9 percent.

While the bill passed Wednesday will apply retroactively to the doubling interest rate on July 1, setting the interest rate paid by all federal Stafford loan borrowers to 3.85 percent for the first year, the bill establishes a rate-setting system that will lead over the coming years to increasing interest rates that could surpass 10 percent.

The rhetoric spouted by the political establishment that the bill will allow unsubsidized borrowers to save money is entirely predicated on the present near-zero interest rates maintained by the Federal Reserve. With the Federal Reserve stating its intention to raise interest rates, students' borrowing costs are set to rise significantly in the coming years. With interest rates rising sharply over the past two months, borrowing costs are likely to be far higher for students who take on new loans under the market-tied rates of the bill.

As students and families already face increasing financial burdens from the rising costs of education, with the total amount of student loan debt eclipsing credit card debt in 2010, interest rates for all three student loan groups are expected to be higher than current rates by 2017, and total student loan debt is set to rise from $1.1 trillion to $1.4 trillion. Furthermore, low- or middle-income students will no longer be able to receive a lower borrowing rate, with the new student loan rates tied to the fluctuations of the market.

With the new student loan rates and their anticipated rise, the federal government is expected to make nearly $200 billion over the next 10 years on the backs of families and young people already struggling under economic conditions unseen since the Great Depression. The Congressional Budget Office (CBO) estimates the bill as written would reduce the federal deficit by $715 million over the next decade by further indebting students and young people. Earlier this year, the CBO also reported that the US government will receive a record $51 billion in profit this fiscal year from student loan interest, a yield equal to the combined profits of the four largest US banks.

On the day of Senate passage of the bill, in a speech at Knox College, Barack Obama said that for the remainder of his time in office he would "lay out an aggressive strategy to shake up the system, tackle rising costs and improve value for middle-class students and their families." This statement is a lie. Obama's hailing of the bill's passage as "a major victory for the nation's students" masks what is in reality a reactionary measure that would not only lead to drastically higher student loan borrowing rates over the coming years, but further subordinate the social right of struggling students to an education to the machinations of Wall Street.