US Congress approves plan that will increase student loan rates

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2 August 2013

A bipartisan vote of 392-31 in the House of Representatives has approved a plan that will link student loan interest rates to financial markets via 10-year treasury notes. The plan, originally brought before and approved in the Senate two weeks ago, will eliminate the difference between subsidized and unsubsidized loans and is setting the stage for student loan interest rates to go far higher than current levels.

The legislation now goes before President Obama, who has voiced his support for the measure and is expected to sign it into law shortly. The speed at which the bill passed first the Senate and then the House reflects the fact that Congress is going into recess soon and both parties wanted to ensure that the latest plot to indenture millions of young people went into effect.

This bill comes after Congress and the Obama administration allowed the expiration of the federal student loan law on July 1, effectively eliminating the difference between subsidized and unsubsidized Stafford loans, doubling the interest rates for undergraduates from 3.4 percent to 6.8 percent. According to the White House, this affected nearly 7.5 million low-income students nationwide.

While passage of the bill is being hailed as a great measure of education “reform” in allowing low-income students access to college, it is nothing of the sort. The student loan interest rate figures currently being touted—3.86 percent for undergraduates, 5.41 percent for graduates and 6.4 percent for parents—is only expected to last at best a year.

These rates are expected to then rise as the Federal Reserve slowly phases out its policy of near-zero interest rates. As this happens, student loan rates are expected to skyrocket, hitting the “limits” placed in the legislation: 8.25 percent for undergraduates, 9.5 percent for graduate students and 10.5 percent for parents taking out PLUS loans for their children. All of these are far higher than even the rates locked in after July, which were 6.8 percent for undergraduates and 7.9 percent for undergraduates. There is also every possibility that the limits are pushed even higher by Congress in the years to come.

Significantly, low- and middle-income students will not be able to get any reductions in their interest rate. Previously, if one’s parents were in a low- or even middle-income bracket a student could receive subsidized Stafford Loan, which had an interest rate of 3.4 percent. Now, both Democrats and Republicans are essentially going to force the interest rate of these same students to nearly triple.

Alongside all of this is the rise in tuition costs. According to the Department of Education, average in-state tuition costs rose by 6.7 percent between the 2010-11 and 2012-13 academic years.

The student loan industry is a highly profitable one, both for private creditors and now the federal government. Student loan debt in the US now stands at $1.1 trillion, greater than the national auto and credit card debit *combined.* It is the largest form of debt in households outside of mortgages. The US government now stands to make $200 billion over 10 years as a direct result of this latest interest rate scheme.

The average student graduates with $27,547 (up from $15,073 in 2013 dollars) in debt. One eighth of recent college graduates have more than $50,000 in debt. Moreover, these figures are only the principal amount of loans. With interest rates set to spike, the amount that graduates actually have to pay out is going to balloon and in some cases double or more that what the student borrowed in the first place.

As a result of the Great Recession, the number of student loan borrowers increased 31 percent between

2007 and 2012. Sixty-five percent of all graduates now have student loan debt, rising from 46 percent in 1993. Fourth quarter 2012 statistics from the Federal Reserve show that 43 percent of 25-year-olds had student debt in 2012, an increase from 27 percent in 2004. More and more, young people are being swept up in the student debt dragnet.

The actions of Congress and the Obama administration will exacerbate the already massive social crisis among recent college graduates. Official unemployment for those aged 25-34 has risen from 7.7 percent in 2007 to 13.3 percent in 2012. Taking into account those that are underemployed—meaning that they are working low-wage, part-time, temporary work or work that has no relation to their degree—the unemployed and underemployed figure jumps to approximately 50 percent.

The same age group is also being forced to essentially put their lives on hold. In Japan, much has been made about the "lost decade" of 2000-2009 for youth and a similar situation is well advanced in the United States. As a result of high student loan debt, graduates have increasingly been forced to move back in with their parents. Nearly 17 percent of men moved back home in 2012, rising from 13.5 percent in 2005, while 10.4 percent of women did the same, up from 8.1 percent over the same period.

The US government is already making a ransom off of student loan interest. It will receive a record $51 billion this year, according to the Congressional Budget Office, a sum greater than the profits of the four largest US banks. All of the cuts to education are being justified by the White House, which argues that "taxpayers cannot continue to subsidize higher and higher costs for higher education."