

# Federal student loan interest rates increase by nearly 1 percent this month

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On July 1 the interest rates on federal student loans grew by almost one percent. The rate increase, which is expected to be repeated next year, will further bar millions of potential students from acquiring an education.

The interest rate on the Stafford loan, the major federal student loan for undergraduates, rose from 3.86 percent to 4.66 percent (for both subsidized and unsubsidized Stafford loans). The PLUS loan, which is available to parents of undergraduates, rose from 6.41 percent to 7.21 percent. Graduate students who use the Stafford loan saw their rate increase from 5.41 percent to 6.21 percent. All of these rates increases affect loans issued after the rate hike.

The rate increase is the result of a bipartisan move by Congress last year to peg the interest rates of student loans to financial markets, rather than a fixed rate. The move, finalized in 2013, makes interest rates on federal student loans track the US government's 10-year borrowing cost. Each year, on July 1st, the rate is readjusted.

In July of 2013, the student loan rate for subsidized Stafford loans was set to double from 3.4 percent to 6.8 percent due to the expiration of a 2007 law that reduced the rates of student loans during the financial crisis. The Obama Administration and Congress used the expiration of the law to pass the measure tying student loan interest rates to the government's borrowing costs, setting the stage for rates to rise significantly over subsequent years.

The Obama administration claimed that this move would reduce borrowing costs for students. But as a result of the scaling back of the Federal Reserve's quantitative easing program, interest rates are going up throughout the economy. As borrowing costs continue to rise, they will send student loans to new heights,

possibly near their cap at 8.25 percent for undergraduates, 9.5 percent for graduates, and 10.5 percent for parents—approaching the rates charged on credit cards.

Mark Kantrowitz of [advisors.com](http://advisors.com), a site that helps students plan and pay for college, told [seattlepi.com](http://seattlepi.com) that rates could roughly double in the next four years. “The real concern is that the interest rates have nowhere else to go but up,” he said.

The growing burden of student loan debt is part of a larger crisis facing young people throughout the United States and the world. As the economy remains stagnant, with no hope of relief, hundreds of millions of young people around the world struggle to find a job, let alone a career that pays decently.

More and more graduates are stuck in low-paying service jobs, or a labyrinth of unpaid internships, with no means to pay off their loans. Meanwhile, costs at colleges have skyrocketed, driving tuition up more than 80 percent in the past decade in school systems such as the University of California.

Student debt has soared in recent years. The total level of US student loan debt hit more than \$1 trillion in 2011, surpassing the total amount of credit card debt and home mortgage debt. The class of 2014 had an average debt load of \$33,050, more than triple the level in 1993.

At the beginning of 2013 total student loan debt was \$1.2 trillion, almost 8 percent of America's Gross Domestic Product. Between 2003 and 2012, the portion of 25-year-olds with student debt rose from 25 percent to 43 percent.

For millions of young people this debt is a crushing burden that weighs on them for years after leaving college. Rory O'Sullivan, the deputy director of the Young Invincibles, an organization that educates young

people about financial issues, told *CBS* that roughly 1 in 7 debtors default on their loans within their first three years of graduation. O'Sullivan added that "We expect the rates to continue to go up over time, so the problem is only going to get worse."

Last month, President Barack Obama signed an executive order that will extend the federal Pay As You Earn (PAYE) student loan program to graduates who borrowed money before 2007 and those who have not borrowed since 2011. Largely a public relations move in advance of the mid-term congressional elections, the executive order will allow some students to pay their student loans over twenty years, rather than ten, but with a larger sum owed over that period.

Meanwhile the government, and the private loan servicers who are contracted to collect federal student loans, will make a killing. The Congressional Budget Office estimates that in the next decade the federal government will make \$127 billion from interest accrued on student loans.



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