US Federal student loan interest rates set to rise in July

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15 May 2017

On Wednesday, the Department of the Treasury released figures indicating interest rates for new federal student loans for the 2017-18 school year are set to increase by 0.69 percentage points.

Although the Department of Education has yet to officially announce the new rates, Treasury Department figures show that undergraduate Stafford loan rates will rise to 4.45 percent from 3.76 percent. Graduate Stafford loan rates will increase to 6 percent, up from 5.31 percent. Rates on PLUS loans, those for parents as well as graduate students, will increase to 7 percent, up from 6.31 percent.

The government's interest rate increase has its roots in a 2013 provision signed into law by then President Barack Obama. In that law, the Republican-led Congress and the Obama administration coordinated in establishing how the Federal Reserve set interest rates on student loans. Moving away from a system in which Congress defined interest rates years in advance, interest rates are now tied to financial markets via 10-year Treasury notes.

Although rates had fallen slightly in the years following its implementation, the response by Wall Street to the election of President Trump has provided a significant impetus for their gradual increase.

On top of subjecting student loan rates to the volatility of the financial market, the debt burdens students will confront after they leave college are compounded by the oligarchic and militaristic aims of the Trump administration.

Since the election in November, Treasury yields have risen from 1.71 percent to 2.4 percent as financial speculators have anticipated more federal borrowing based on Trump's campaign promises for major cuts in corporate and personal tax rates, an infrastructure spending program which will benefit corporations through massive tax write-offs, and increased military spending.

So far Trump's budget proposal for an expansion in military spending at the expense of social services as well as the tax breaks for the wealthy indicated in the version of the American Health Care Act passed by the House confirm these reactionary promises.

The increase in federal loan rates comes several weeks after current Education Secretary Betsy DeVos reversed plans made under the Obama administration to build a new student loan servicing system by consolidating contracts with private creditors into a single vendor.

Despite the largely token measure taken by the previous administration, the move is in line with DeVos' repeated plans to cut the federal funding and regulations overseen by the Department of Education.

Regardless, the Education Department continues to profit from its contracts with private lenders. Currently, the federal government has $800 million in contracts with nine different loan servicing companies to carry out the tasks of sending bills, collecting payments, and dealing with borrower issues. Under this setup the federal government directly benefits from the student loan crisis to the tune of about $10 billion per year.

With the increase in student loan rates, private lenders are also anticipating higher profits since private loan rates will begin to look more favorable as federal rates continue to increase. David Nelms, CEO of Discover Financial Services, said during an April 25 earnings call, "If the government backs off of that market … we would take the position to take advantage of it."

Despite the higher rates for private loans, with average fixed rates from 6 to 12 percent and market variable rates from 4 to 10 percent, these lenders account for nearly 10 percent of all student loans,

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roughly $7 billion to $9 billion.

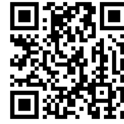
Notwithstanding their smaller presence, these companies have been known to take advantage of their clients; most private creditors also do not provide income-based repayment programs or deferment plans. Navient, for example, has been prosecuted several times for malpractice, most recently for siphoning nearly $4 billion from millions of debtors.

For private lenders, student loans have created a nearly $200 billion market for asset-backed securities, particularly following the 2008 financial crisis. Known as SLABS (Student Loans Asset-Backed Securities), these securities currently account for over one-third of the $1.4 trillion of student loan debt since their creation by Sallie Mae in 1992. As students are forced to borrow and repay more and more money, a growing student loan bubble could threaten to destabilize the economy just like the housing and dot-com bubbles.

Today, 44 million Americans, one-sixth of the population, collectively owe $1.4 trillion in student loans, which averages to roughly $32,000 per debtor. An estimated seven of every 10 students to graduate college leave in debt. Under the Obama administration, major cuts were made to public funding for higher education. Public universities compensated for this loss with a 33 percent tuition increase nationwide in the first six years of the Obama presidency.

A 2015 study by George Washington University found that millennials, youth roughly between the ages of 18 and 30, are becoming increasingly distressed by this reality. The study found that over 50 percent of millennials are concerned as to how they will repay their student loans, over 80 percent have one long-term debt, and nearly 30 percent are regularly overdrawing their checking accounts.

To compound the pressures placed on students, the likely future interest rate increases will have an impact on their monthly student loan payments and total repayment costs after graduation. Currently, interest rates are fixed for each school year and do not change throughout the life of the loan, but since most students take out loans on a semester or yearly basis, the fluctuations in interest rates per year will require recalculations of monthly payments. Assuming rates will increase each year, this will mean that monthly payments will increase as well.



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