

# FINANCIAL AID: FACT SHEET

## THE ISSUE: IN 30 SECONDS

On July 1<sup>st</sup>, 2013, interest rates for student loans doubled from 3.4% to 6.8% for students who take out subsidized Stafford loans beginning in the 2013-2014 academic year, making it more expensive for students and parents to pay for college in the long run.

## THE ISSUE: AN OVERVIEW

“Interest rates for Stafford student loans doubled on July 1 to 6.8 percent from 3.4 percent when Congress failed to pass legislation on the issue.

The rate increase applies to loans taken out by undergraduate students on or after July 1.

The Republican-led House passed a bill in May addressing four types of student loans — subsidized and unsubsidized Stafford loans, GradPLUS loans and Parent loans. The bill, labeled H.R. 1911 and called the “Smarter Solutions for Students Act,” based interest rates for all subsidized and unsubsidized student loans on a 10-year Treasury note plus 2.5 percentage points, with a cap of 8.5 percent, according to a cost estimate released by the Congressional Budget Office.

The bill passed on a party-line vote, and President Barack Obama promised to veto the bill.

“The problem with this system is that over the life of a student’s loan, that interest rate is going to float higher than the 6.8 percent,” Wakana said. “So H.R. 1911 actually makes it more expensive for students and parents to pay for college. [...]”

Despite “hype” over the new policy, students and universities are unlikely to change their behavior, said Elizabeth Keuffel, president of the New Hampshire Association of Student Financial Aid Administrators. Students will still choose to attend college and receive loans, and most universities will be unable to offer additional aid.

Students taking out loans will not begin the repayment process for years, by which time the policies are likely to have changed, Keuffel said. Additionally, the increased interest rate is beneficial to other students, since it funds the federal Pell grant program.

George Philipose (Dartmouth '15) said that although the rise in interest rates is unfortunate, it is worthwhile if it helps the government become more solvent and reduce debt. He added that it may make students more responsible about borrowing.”<sup>1</sup>

## FREQUENTLY ASKED QUESTIONS

### What types of loans are impacted by the interest rate increase?

Only interest rates on subsidized Stafford Loans will be impacted by the July change. Subsidized Stafford Loans are need-based loans for undergraduate students only. The loans don't accumulate interest while students are in college. Need is determined by the Free Application for Federal Student Aid (FAFSA) form, which applicants can fill out at no cost.<sup>2</sup>

### Why have interest rates increased?

The 6.8 percent rate is actually the old interest rate for these loans. Congress passed a law back in 2007 that gradually lowered interest rates to 3.4 percent over five years, but allowed the rate to rise back to 6.8 percent in 2012. Everyone - President Obama, Republicans, Democrats - wanted to avoid that rebound, but couldn't agree on how to do it. So they passed a stopgap measure that extended the 3.4 percent interest rate for a year. But that year is almost up and we're at a familiar situation: everyone wants to prevent interest rates from rising uniformly to 6.8 percent, but they can't agree on how to get there.<sup>2</sup>

<sup>1</sup> The Dartmouth, <http://thedartmouth.com/2013/07/05/news/RATES>

<sup>2</sup> ABC News, [http://abcnews.go.com/ABC\\_Univision/News/july-hike-student-loan-interest-rates-explained/story?id=19314208](http://abcnews.go.com/ABC_Univision/News/july-hike-student-loan-interest-rates-explained/story?id=19314208)

### **What are some other proposed solutions?**

Obama wants student loan interest rates to vary from year to year depending on market conditions. Interest rates for subsidized loans would be tied to the yield on 10-year Treasury bonds (plus .93 percentage points). Basically that means interest rates could initially be even lower than 3.4 percent, but they could rise much higher in coming years. The good part, though, is that while rates would vary by year, they'd be locked in over the life of every loan.

Some Democrats want to extend the current 3.4 percent interest rate for a year or two to give Congress a chance to reform the law that deals with federal student loans. That law is set to expire at the end of this year. But that plan doesn't appeal to all Democrats. Senator Elizabeth Warren recently proposed that interest rates match the rate the Federal Reserve charges banks: .75 percent.

Some Republicans have also called for varying interest rates based on the market. House Republicans recently passed such a bill. Like Obama's plan, the interest rates on Stafford loans would be tied to the yield on 10-year Treasury bonds (plus 2.5 percentage points). Unlike Obama's plan, the Republican plan would not offer better rates for subsidized loans than unsubsidized loans. Also unlike the president's proposal, the rate would not be locked in over the life of the loan. It would vary, although it could be fixed after graduation. The Republican plan does cap how high interest rates could go, however, to 8.5 percent for Stafford loans. Senate Republicans have called for a plan that would also vary with the market, but lock in rates over the life of each loan. Like Obama's plan, Senate Republicans also don't offer a cap on rates.<sup>2</sup>

#### **RELATED ORGANIZATIONS**

##### **Don't Major in Debt**

<http://www.nypirg.org/dontmajorindebt>

##### **Student Debt Crisis**

<http://studentdebtcrisis.org>

##### **National College Finance Center**

<http://www.collegefinancecenter.org/>

#### **CONNECTIONS TO JUSTICE**

**Right to Education:** With the cost of education rising through increased tuition and fees and the doubling of the interest rate of unsubsidized Stafford student loans, combined with the growing necessity of an undergraduate degree in the current economic climate, many debates have developed about the accessibility of higher education. Under these circumstances, should higher education be a right, as primary and secondary education are? Do these factors make a college education less accessible, and, if so, are certain populations disproportionately affected? Does this bring up other questions of justice?