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New York

How New York Will Be Affected if Stafford Loan Interest Rates Double

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More than 7 million students and their families rely on federally subsidized Stafford loans to help pay for college.[1] The loans are distributed by the U.S. Department of Education and currently hold an interest rate of 3.4 percent. But that rate is set to double if Congress fails to act by July 1, 2012. If that occurs, millions of students will see their interest rates soar to 6.8 percent on the new loans they take in the next year, causing a steep rise in their loan burden and effectively increasing the cost of obtaining a college degree.

During recession, education debt increased while other credit markets dropped

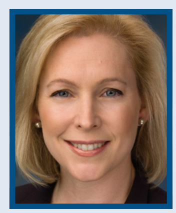
Below is an excerpt from a recent column, "Student Loan Debt Seems to Rise No Matter What the Economy Does," by Center for American Progress Senior Fellow Christian Weller.[2] *Weller explains that education cost and debt increased during the recent recession while other forms of household debt declined. He argues that allowing student loan interest rates to rise will put additional pressures on already struggling middle-class families and make it harder for them to pay for college.*

The most recent data on outstanding education loans during the Great Recession of 2007-2009 reveal that in both good and bad economic times the cost of a college education only increases, as does the debt burden of borrowers. The number of borrowers and the typical loan amount grew amid the most recent economic and financial crisis. This is especially stunning since the expansion of education debt occurred at the same time that other credit markets, especially mortgages and credit cards, contracted. Households went deeper into education debt during the crisis as other forms of credit became less prevalent.

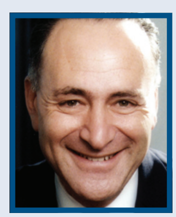
The financial and economic crisis of those years marked a period of widespread declines in household debt levels. Mortgages and credit cards declined as households repaid their debt and banks foreclosed on bad debt. But the same was not the case for education

Voting record

On May 8, the U.S. Senate considered a motion to bring forward legislation designed to keep interest rates from doubling on July 1. Despite statements of support from both parties, the motion failed—on a party line vote of 52 to 45—to reach the 60 vote threshold needed to bring the bill to the floor.



Kristen Gillibrand (D)
YES



Charles Schumer (D)
YES

loans. Education loans typically cannot be discharged in bankruptcy, which may explain why education debt didn't fall like other forms of debt did. But there are other factors at work, too. The summary data illustrate that education loan borrowers became economically less secure during the crisis because they had more debt—education and noneducation—after the crisis than before. There were also generally more households with education loans and the amount owed on education loans went up during the crisis.

More households owed education loans in 2009 than in 2007. The total share of households with education debt went from 16.2 percent in 2007 to 17.6 percent in 2009. The share of households with education loans increased for almost all groups except for Hispanics and households headed by someone without a high school degree.

The median amount owed by borrowers also grew during the Great Recession. The median education debt amount increased by $2,573, from $12,427 in 2007 to $15,000 in 2009.[3] And almost all groups of households saw rising education debt levels, except for households without high school degrees. The largest increase in the median education debt amount—$5,715—occurred among African American households.

Allowing interest rates on new student loans to climb without countervailing measures will thus put additional pressures on an increasingly struggling middle class that continues to need to borrow to attend ever more costly colleges and universities.

TABLE 1

Student borrower profiles

A review of the debt characteristics of education loan receipients

Edcucation borrower characteristics	2007	2009
Median age of borrower (in years)	35	39
Median income of borrower	$60,704	$66,746
Share of households with no or negative wealth	28.7%	35.6%
Median wealth of borrower	$45,380	$28,160
Share of borrowers who are homeowners and "under water"	2.8%	14.1%
Share with non-education debt	86.3%	86.7%
Median amount of non-education debt	$53,851	$62,000
Median debt payment amount on all debt	$12,300	$12,360

Notes: Author's calculations based on Board of Governors, Federal Reserve System (2012). Survey of Consumer Finances, Panel data from 2007 to 2009. Washington, DC: BOG. Dollar amounts are in 2009 dollars.

TABLE 2

Who's who among student loan borrowers

Borrowers by race and ethnicity, educational attainment, and size of student loans

Median loan amounts	2007	2009	Change from 2007 to 2009
Total	$12,427	$15,000	$2,573
Whites	$13,463	$15,000	$1,537
Blacks	$8,285	$14,000	$5,715
Other races	$12,427	$17,000	$4,573
Hispanic	$13,463	$17,000	$3,537
No high school diploma	$6,213	$6,000	-$213
High school diploma	$6,731	$10,000	$3,269
Some college	$9,942	$11,000	$1,058
College degree	$19,676	$21,000	$1,324
Distribution of education loans			
Less than $2000	8.4%	6.6%	-1.8%
$2000 to $5000	12.3%	9.6%	-2.7%
$5000 to $10000	22.3%	20.8%	-1.5%
$10000 to $25000	28.1%	30.3%	2.2%
$25000 to $50000	17.4%	17.9%	0.5%
$50000 and above	11.6%	14.8%	3.2%

Notes: Author's calculations based on Board of Governors, Federal Reserve System (2012). Survey of Consumer Finances, Panel data from 2007 to 2009. Washington, DC: BOG. Dollar amounts are in 2009 dollars.

TABLE 3

Student loan households

Share of loans by race and ethnicity, and educational attainment

Share of households with education loans	2007	2009	Percentage point change from 2007 to 2009
Total	16.2%	17.6%	1.4%
Whites	15.1%	15.9%	0.8%
Blacks	24.4%	27.9%	3.4%
Other races	14.2%	16.7%	2.5%
Hispanic	15.9%	14.2%	-1.7%
No high school diploma	6.3%	5.0%	-1.3%
High school diploma	9.5%	12.0%	2.5%
Some college	19.2%	21.7%	2.5%
College degree	24.1%	24.7%	0.6%

Notes: Author's calculations based on Board of Governors, Federal Reserve System (2012). Survey of Consumer Finances, Panel data from 2007 to 2009. Washington, DC: BOG. Dollar amounts are in 2009 dollars.

The state of higher education in New York

Allowing the interest rate on Stafford loans to double is a significant burden on those already struggling with education costs and high unemployment.

Youth unemployment rate	13.8%
High school completion rate	70.1%
College completion rate	59.2%
Change in higher education spending	-7.1%
College graduates with debt	61%
Average debt upon college graduation	$26,271
Number of Stafford Loan borrowers	422,670
Average savings if rate unchanged (per borrower)	$993
Total savings if rate unchanged (statewide)	$419,711,310

US Department of Labor, 2010; National Center for Higher Education Management Systems, 2009; Complete College America, "2011 College Completion Data"; Inside Higher Ed, "State Support Slumps Again, January 23, 2012; The Institute for College Access & Success, "College InSight," 2009-10; The Project on Student Debt, The Institute for College Access & Success, "Student Debt and the Class of 2010" November 2011; The White House, accessed May 2, 2012.

How doubling Stafford interest rates will affect families in New York

If Congress allows the interest rate to double on Stafford loans, it will impact millions of families in every state, from high school graduates to student borrowers to supporting family members. Not only is this a significant burden, it can also block young Americans' path to financial independence, forcing them to delay buying a home, starting a family, or pursuing further education. In turn, this has a detrimental effect on the economy: We need people who can make investments for the future instead of being held back by student loan debt.

Sharron from Astoria, N.Y.

"I did everything 'right.' I went to community colleges while working full time for 3.5 years to save money, then transferred to a four-year school that I worked at full time so I could take classes for free for another 3.5 years. I finished the last year and a half at an 'inexpensive' state school, and took out loans for that, then took out additional loans for the first eight months of my two-year graduate degree before finding a full time job in my field and finishing my degree part-time online. I still ended up with $75,000 in student loan debt, which has grown in the years since I've been paying it off because, at least once a year, I need to request forebearance so I can take care of necessary medical bills. (I also have Type 1 diabetes.) Whatever payments I don't make during that time get added to the principal. My finances are devastated by this school debt. I already think the interest rates are too high—I will have paid over $150,000 total by the time I'm finished paying off my debt at the age of 66. That is ridiculous. Raising interest rates is moving in the wrong direction. They should be cut, for current and future students, and for those of us already overburdened with student debt."

Iliana from New York, N.Y.

"I am a single mother of three children who will graduate with a BA in June and is set to start a Master's degree in Rehabilitation Counseling. These last three years, my children and I have survived thanks to savings and student loans. My savings are no longer there. If the student loan [rates] double in cost to us students, I (and many like me) will not be able to continue studying because it will not be cost-efficient. … When we lost our jobs in 2008 and 2009, the government told us to go back to school. Some of us, against all odds, did. Now it's your time to protect us against unreasonable measures that hinder higher education, the students, and subsequently the economy and our standing in the world as an intellectual power."

Leslie from Saratoga Springs, N.Y.

"I have $70,000 (and escalating) Parent Plus loan for my eldest, who is paying diligently on her Stafford loans (she still owes $9,000). I have been unemployed (full-time) for two years now and we are in foreclosure. My middle kid has been accepted at Cornell (Early Decision) with a strong financial aid package, but we are struggling to figure out how to bridge the last $13,000. And I have a brilliant 16-year-old who wants to go into medicine. Don't know how much longer I can tread water—and we believe that education is important. The debt load and cost of education is breaking our youth before they can get on their feet! They will begin to shy away from higher education."

Florence from Brushton, N.Y.

"I was lucky enough to qualify for a Pell Grant and other [aid] so I could attend a community college after I was downsized by my factory corporation employer. I was 56 years old and I graduated on the dean's list. Now is not the time to throw up barriers to higher education. Despite what Rick Santorum sneered, working toward a college degree is not snobbish. It is forward thinking."

Chrissy from Binghamton, N.Y.

"I will be paying my student loans off for at least 20 years. Seeing my daughter starting this process now is so scary because I wouldn't want her to be in the debt that I am in. Even with my advanced degree, I make less than $35,000 a year, so paying off this debt will take forever for me."

Tamora from Syracuse, N.Y.

"I am the co-signer of two of the eight debts my student had to take to fund her education. She works her behind off to keep up with her payments, with some very bad months when she was unable to find any work at all and made two large moves in order to reduce her living expenses and move to places with more potential for jobs. She does not deserve to have more debt to pay through no fault of her own!"

Mark from Canton, N.Y.

"We burned through the entirety of our savings in three years putting our son through college. Now we're halfway through our daughter's college career, $32,000 in debt. … Families shouldn't have to impoverish themselves to do right by their kids. … We trust [Congress will] do the right thing."

James from Rochester, N.Y.

"I am a college professor and see the effect of debt on students all the time. If we are to advance as a great nation we must stop this student debt crisis and move to subsidizing college education."

Recent in-state press coverage

"Members of Congress from both parties say they want to prevent interest rates on subsidized Stafford student loans from going up in July, but they are fighting over how to pay for a solution. And by proposing quick-fix methods to pay for only a year's worth of loan subsidies, both parties suggest they are not really serious about helping students afford college. More than 7.4 million low- and middle-income students rely on these loans to get a higher education, and the need will only grow as college costs spiral higher. There is no better long-term solution to the nation's economic troubles than increased access to higher education."
— "Short-Term Fixes," *New York Times*, 5/2/12

"It is baffling that both sides of the aisle agree that the interest rate should be kept at 3.4 percent, and still nothing can get done. Instead of coming together to find a mutually agreeable means of funding the bill, both sides appear to be making every effort to make the other side look bad … many college-bound students anxiously wait to see if they will be levied with an interest rate double what they expected."
— "At a Loss on Loans. Editorial," *Cornell Daily Sun, Cornell University*, 5/1/12

More than 200 student body presidents who represent more than 3 million American students recently wrote to Congress,[4] asking them to prevent the Stafford interest rates from doubling, including:

- Jason Rubin, Vassar College, New York
- Bradley Halpern, University of Rochester, New York
- Dylan Lustig, Syracuse University, New York
- Albert Cotugno, New York University, New York
- Knute Gailor, Hamilton College, New York
- Natalie Raps, Cornell University, New York
- Jessica Blank, Barnard College, New York

Endnotes

1 The White House, "Keeping Student Interest Rates Low," available at http://www.whitehouse.gov/dont-double-my-rates

2 Christian E. Weller, "Student Loan Debt Seems to Rise No Matter What the Economy Does" (Washington: Center for American Progress, 2012), available at http://www.americanprogress.org/issues/2012/05/student_debt.html

3 The data in Table 3 showing the distribution of education loans by size also show that education loans above $10,000 grew, while the share of education loans below $10,000 shrank between 2007 and 2009. That is, the rise in the median loan amount was driven by rather widespread growth of education loans in the upper 60 percent of the loan distribution.

4 National Campus Leadership Council, "Open Letter on Student Debt," available at http://www.nationalcampusleaders.org/debt.html