More than 7 million students and their families rely on Subsidized Stafford Loans to help pay for college. The loans distributed by the U.S. Department of Education 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 thereby causing a steep rise in their loan burden and effectively increasing the cost of attaining a college degree. At a time when tuition is rising at 8.3 percent a year and median wages for young people are falling, young Americans and their families can ill afford more Washington inaction. If Congress allows the interest rate to increase:

• 7.4 million students will see their college costs go up—about one out of every three college students in the country.¹

• The increase will cost the average college student about $1,000 more per year of school.²

• As a result, the cost of college for the average borrower taking out full Subsidized Stafford Loans will increase by 20 percent next year.³

This increase comes at a time when American families are already struggling financially, and having a college degree is more important than ever before. Given the importance placed on a college education and the significance of higher education to a nation’s economic competitiveness, it is unsurprising that in a recent poll 92 percent of young Democrats and 78 percent of young Republicans say that increasing financial aid and making loans more affordable for college would help make the economy stronger.⁴

Source: Calculated using average public school tuition from: College Board, “Trends in College Pricing 2011” (2011). Average loan amounts for graduates from: Matthew Reed, “Student Debt and the Class of 2010” (Berkeley: The Project on Student Debt, 2011). Total cost of college includes interest costs over the life of estimated loans, assuming all borrowers first maximize subsidized Stafford loans before switching to unsubsidized Stafford Loans. We assume conservatively for cost purposes that all are juniors and seniors and can therefore take out $5,500 yearly in subsidized Stafford loans. Projections are made assuming a tuition growth rate of 8 percent per year and a debt load growth rate for graduates of 6 percent a year.
Doubling interest rates will cost the average student and their families approximately $1,000 more for each year in school. This increase comes at a time when tuition has been rising at 8 percent per year on average. Students are actually paying more than the cost of tuition when loan interest payments are factored into the equation. Those borrowers relying on Stafford Loans will see a 20 percent increase in the effective cost of college next year.

Millions of students and their families will be impacted by this change. There are 20.5 million college students in the United States and of those, an estimated 7.4 million students take out Subsidized Stafford Loans. In other words, one in three students will see their interest rates double.

This increase in the cost of college will hit students and their families at a time when young adults have struggled to find work and wages have stagnated. Median weekly earnings for 25- to 34-year-olds have fallen 5 percent since 2001. The result is that young adults are less able to pay their student loan debt even as the amount they owe balloons with rising tuition. This will make it harder for young adults to afford college at a time when having that college degree is more essential for employment than ever.

Young Americans support increasing financial aid and making college loans more affordable

Given the increasing importance of a college degree and the steep rise in the cost of college, it is unsurprising that the Millennial generation wants Congress to make our economy stronger by making college more affordable. In fact, in a poll conducted last year, 92 percent of young Democrats and 78 percent of young Republicans say that increasing financial aid and making loans more affordable for college would help make the economy stronger. Overall, 88 percent of young Americans stated that increasing financial aid and making loans more affordable for college would help make the economy stronger.
Conclusion

Young Americans and their families simply cannot afford to have Congress sit by and do nothing while the interest rates on Subsidized Stafford Loans are set to double in July. The great recession and stagnating wages have already made it more difficult for young Americans and their families to afford the cost of higher education. At the same time, obtaining a credential beyond high school has become more important than ever to achieving financial security for individuals as well as keeping America competitive in an ever-expanding global economy.

As the July 1 deadline nears, it is imperative that Congress acts to keep college affordable for 7.4 million college students and their families.

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Endnotes

1 According to the Project on Student Debt, two-thirds of undergraduate students left with debt in 2010. Matthew Reed, “Student Debt and the Class of 2010” (Berkeley: The Project on Student Debt, 2011), available at projectonstudentdebt.org/files/pub/classof2010.pdf.
5 Calculated using average public school tuition. College Board, “Trends in College Pricing” (2011). Average loan amounts for graduates from Reed, “Student Debt and the Class of 2010”. Total cost of college is calculated conservatively, assuming all borrowers are juniors and seniors and can take out the first $5,500 in subsidized loans each year. Projections are made assuming a tuition growth rate of 8 percent per year and a debt load growth rate for graduates of 6 percent a year.
6 Slack, “By The Numbers: $1,000.
7 College Board, “Trends in College Pricing.”
8 This calculation reflects the anticipated tuition increase and the cost per year of the increase in student loan interest rate reflected in Figure 1.
12 Ibid.
13 Ibid.