Education Week

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Political Pressure Builds as Student-Loan Deadline Nears

Students walk across campus at the University of Vermont in Burlington. U.S. Rep. Peter Welch is compiling stories about student debt. Welch was at the university on Monday to met with students, some of whom are working multiple jobs and studying full time as they accumulate student loan debt. In Vermont, almost 70 percent of college graduates have an average of $30,000 in debt.
—Toby Talbot/AP

By Caralee J. Adams

Maybe it's because of the election year. Perhaps, it's the loud voices of student activists. Otherwise, the student-loan rate-hike debate might have taken center stage politically because it's a relatively easy concept to grasp: Interest rates will double in July on subsidized student loans unless action is taken to stop it.

Who wants to go on record in favor of higher college costs?

Whatever the confluence of factors bringing the issue to the forefront, Stafford Loan rates have become the higher education issue of the day—and, political observers say, may be one of the last to be resolved before November.

Without congressional intervention by July 1, students who take out new federally subsidized, need-based loans will pay 6.8 percent rather than 3.4 percent in interest.

That means six months after graduation, the 7.4 million students expected to take out new Stafford Loans next academic year (one in three undergraduates) will pay 20 percent more in fees, or an average of $1,000 more per year in fees. The neediest students would pay $5,000 more over their repayment period.

"I'm not sure if I'll have a job when I graduate, or if I'll be making enough for the payments," said Faith Nebergall, a junior studying journalism at Indiana University in Bloomington, who estimates she'll pay about $400 a month for at least 15 years to pay off the $40,000 she expects to owe when she graduates.

"I want to get my own place and be independent, but with those huge payments," she said, "it might be hard to obtain."

Where's the Money?

While some contend finance charges aren't critical to access, they are part of the affordability puzzle that others say can make a difference to students deciding on whether to enroll. Loan debts recently surpassed $1 trillion nationwide. The average student graduates with about $25,000 in debt.

A consensus on Capitol Hill is emerging in support of passing a measure to keep the rate at 3.4 percent for another year, but differences remain on how to come up with the estimated $6 billion to pay for it.

President Barack Obama made the college-affordability issue a part of his State of the Union address in January. In late April, it was the focus of one of his weekly radio addresses, and he took the message on the road to college campuses in Iowa, North Carolina, and Colorado.

Soon after, presumptive Republican presidential nominee Mitt Romney came out in favor of lower rates—but in a statement, he added a critical reference to the president's handling of the economy, asserting the relief was needed to help college graduates because of "the bleak job prospects that young Americans coming out of college face today."

Not wanting to appear to be against help for students struggling with debt, congressional leaders in both parties in late April rallied behind efforts to keep the interest-rate cut from expiring, but proposed different routes to get there.

On April 27, the U.S. House of Representatives passed the Interest Rate Reduction Act along party lines, by a vote of 215-195. But the idea of paying for it with money set aside for a preventive program in the 2010 health-care law sparked intense criticism from Democrats and a veto threat from the White House. Congressional Democrats would rather come up with the money by requiring more from the wealthy in the Social Security and Medicare payroll taxes.

The Senate is discussing its own proposal to pay for the lower rate and is scheduled to vote on its version early this month.

"Clearly, everyone has agreed on the policy. Interest rates cannot double," said Rich Williams, a higher education advocate for the **U.S. Public Interest Research Group**, a consumer-advocacy group in Washington that has mobilized students to lobby lawmakers.

"Now, the struggle is working out the details with each other in Congress," he said.

Deadline Looms

The saga of student loans can be traced back to the College Cost Reduction and Access Act of 2007. Congress agreed to phase in lower rates on subsidized Stafford

Loans to 3.4 percent by 2011-12, but then have them revert to 6.8 percent for the 2012-13 academic year.

The loans are awarded on the basis of financial need. The maximum amount a dependent undergraduate student can take out in subsidized loans is $23,000. The lifetime limit for an independent undergraduate is $65,000.

"Congress only acts when there is a perceived crisis," said Stephen Burd, a senior policy analyst with **Education Sector**, a nonprofit think tank in Washington. "It's an easy issue for people to understand. I'm not surprised with the attention. But it is amazing to see how quickly Republicans caved."

Earlier this year, the budget proposed by U.S. Rep. Paul Ryan, R-Wis., the chairman of the House Budget Committee, contained no changes in loan-interest rates.

"Politicians pay attention to the polls," said David Hawkins, the director of public policy and research for the **National Association for College Admission Counseling**, or NACAC. "Obviously, the student-loan issue has polled off the charts; otherwise, we would not have both parties floating bills."

Attention to student debt by the Occupy Movement and lawmakers in campaign mode also has fueled the debate, said Neal McCluskey, the associate director for the Center for Educational Freedom at the **Cato Institute**, a think tank in Washington with a free-market orientation.

"Nobody wants to go on record, especially now, as a person who would double interest rates on students," said Mr. McCluskey. He added that Republicans generally are not against student aid, but want to find a responsible way to pay for it.

Jim Miller, a former president of NACAC and the coordinator of enrollment services at the University of Wisconsin-Superior, said it would be politically difficult for Congress not to lower the rates.

"Student financial aid has always been a way that policy has tried to recognize the shared benefit and responsibility to go to college. It has a personal benefit and a public one," he said.

While there is a groundswell of support for lower interest rates, some in higher education circles contend that this is a relatively small issue on which to use up political capital, without having much direct impact on college access.

Priority Level

Matthew M. Chingos, a fellow at the **Brookings Institution**, a Washington think tank, argues that since blocking the interest-rate increase would only affect interest rates after students leave college, it wouldn't provide relief for current students struggling to afford college. He suggests it would be better to put more federal money into grants to benefit students immediately and decrease the cost of attending college, rather than a give a subsidy down the road.

Mr. McCluskey of Cato agrees there is too much attention being spent on a minor issue that fixes the problem only for one year. "What they need to do is rethink the whole idea of the federal government providing aid for students going to college," he said. "Aid is what drives ridiculous college cost inflation."

Mr. McCluskey contends that cheap access to college aid is leading to an overconsumption of higher education, pushing too many students into college who are unprepared, can't afford it, and do not finish.

Mr. Burd, of Education Sector, said that while it’s admirable that lawmakers want to help student borrowers, there are more far-reaching issues that should be addressed, such as helping borrowers who are dealing with unmanageable debt and stuck in default.

“It’s a good sign that the administration and Congress are concerned about student debt,” he said. “I hope that we can build on this, but I worry that people will say this solves the student debt problem.”

Young people, too, would like to see a larger solution to problems of college affordability, but action to limit the interest-rate increase would be a step, said Andy MacCracken, a student leader and one of the founders of the National Campus Leadership Council, a new group of college student-body presidents that formed last fall. The group has organized students to speak up on this issue and on May 1 **released an open letter** to lawmakers signed by 205 student-body presidents representing nearly 3 million students.

“We are very excited this is being talked about and getting the attention it deserves,” said Mr. MacCracken, 23, a part-time graduate student at American University, in Washington, who himself anticipates $70,000 in student-loan debt after finishing graduate school. “It affects everyone and has major ramifications for the economy and our nation down the road.”