



## Fact Sheet: The Republican Student Loan Interest Rate Hikes

*On July 1<sup>st</sup>, interest rates on subsidized Stafford loans are set to double from 3.4% to 6.8%. If Congress does not act, the result would be an additional \$1,000 in loan debt that would act like an extra tax on a college education for over seven million students. At a time when Americans owe more on student loans than credit cards, the last thing we should do is make college more expensive. Protecting college students from higher loan rates should be something we all agree on, but instead of helping students and middle-class families succeed the Republican plans would actually cost students more.*

### **Republican Plans Fail to Protect Student Borrowers**

Instead of helping students and middle-class families succeed, House and Senate Republicans are pushing for plans that would cost students more and put the burden of the deficit on the backs of student borrowers.

- **House Republican Plan:** H.R. 1911 would change the interest rates for all new federal loans from a fixed rate to an annually adjustable variable interest rate. Specifically, the bill would tie interest rates to the more expensive 10-year Treasury note, instead of the historically used 91-day Treasury bill, plus 2.5% for subsidized and unsubsidized Stafford loans and 4.5% for PLUS loans. Although the bill contains a cap for interest rates, it is a high cap – 8.5% for Stafford loans and 10.5% for PLUS loans.  
[CAP, [5/23/13](#); Inside Higher Ed, [5/10/13](#)]
- **Senate Republican Plan:** S.1003 would change interest rates for all new federal loans to a fixed variable rate, reset every year. Like the House Republican plan, the bill would tie interest rates to the more expensive 10-year Treasury note, plus 3% for subsidized and unsubsidized Stafford loans and all PLUS loans. Unlike the House's bill, the Senate Republican plan does not set a cap on how high interest rates could rise. Like the House Republican plan, the Senate Republican plan would not differentiate between need-based loans and non-need based loans.

### **Republican Plans Make College More Expensive**

- **Student borrowers will face skyrocketing interest rates.** Over the next seven to ten years, federal student interest rates will be higher than current rates. The interest rate for federal subsidized Stafford loans is currently set at 3.4%. While the House Republican plan appears to offer low rates to students, by the time this fall's freshmen graduate their loan rates are projected to rise almost 3 points to 7.36%. By 2023, the rate is expected to rise to 7.7%. Under the Senate Republican bill, although interest rates would be fixed over the life of the loan, the bill does not set a cap on how high the interest rate can rise, meaning student loan rates could rise as high as 15% like they did in the 1980s. [CBO, [5/20/13](#); Inside Higher Ed, [5/10/13](#); NY Times, [5/23/13](#); TICAS, [5/10/13](#)]

- **Students will have to pay thousands of dollars extra on their loans.** The higher interest rates under the House and Senate Republican plans would add thousands of dollars in extra interest payments over the life of each loan. Over a standard, 10-year repayment period: [CBO, [5/20/13](#); Senate HELP Committee Projections, 5/13]
  - A student borrowing \$19,000 in subsidized loans over four years **will pay either \$4,949 or \$3,080 more in interest** than under current rates.
  - A student borrowing \$23,000 in subsidized loans over four years **will pay either \$6,009 or \$4,167 more in interest** than under current rates.
  - A student borrowing \$19,000 in subsidized loans and \$8,000 in unsubsidized loans over four years **will pay either \$5,285 or \$2,275 more in interest** than under current rates.
  - A student borrowing \$23,000 in subsidized loans and \$8,000 in unsubsidized loans over four years **will pay either \$6,475 or \$3,254 more in interest** than under current rates.
- **Passing the House Republican plan would be worse than doing nothing.** Students who borrow the maximum amount of subsidized and unsubsidized Stafford loans would pay \$1,782 more in interest than they would even if the rates double to 6.8% on July 1<sup>st</sup>. [CBO, [5/20/13](#); Senate HELP Committee Projections, 5/13]
- **Billions of dollars will be added to the already exploding student debt burden.** Student loan debt already tops \$1.1 trillion, surpassing credit card and auto loan debt, and is second only to mortgage debt for American families. The House Republican bill would add nearly \$4 billion more to this already crushing burden while the Senate Republican bill would add \$15.6 billion in an effort to balance the budget on the backs of student borrowers. [CBO, [5/20/13](#); CBO, [5/23/13](#); CFPB, [5/13](#)]
- **Students and their families will face extreme uncertainty.** Interest rates would be reset each year over the life of the loan under the House Republican plan. Not only would the varying rates create enormous uncertainty for students and their families as they try to budget their money and save for the future, it would also put them at risk of paying significantly more on their loans when market rates go up. And while interest rates are fixed for the life of the loan under the Senate Republican plan, there is no cap, meaning that future borrowers could face skyrocketing rates in the coming years. [Inside Higher Ed, [5/10/13](#)]

Amount Borrowed	\$19,000 subsidized	\$23,000 subsidized	\$19,000 subsidized \$8,000 unsubsidized	\$23,000 subsidized \$8,000 unsubsidized
H.R. 1911	\$8,459	\$10,243	\$13,783	\$16,448
S. 1003	\$6,590	\$8,401	\$10,773	\$13,227
July 1 <sup>st</sup> Doubling of Rates	\$7,403	\$8,927	\$12,391	\$14,666
Extension of Current Rates	\$3,510	\$4,234	\$8,498	\$9,973
H.R. 1911 Difference From Extension of Current Rates	+\$4,949	+\$6,009	+\$5,285	+\$6,475
S. 1003 Difference From Extension of Current Rates	+\$3,080	+\$4,167	+\$2,275	+\$3,254

Table figures reflect the amount of interest paid by students starting school in academic year 2013-14 and borrow for four years, assuming the standard ten-year repayment period. [HELP Committee Projections, 6/13]

## **The Republican Plans Have Not Been Proposed by the White House**

House and Senate Republicans alike are saying their proposals are similar to the Obama Administration's student loan interest rate proposal. Unlike the President's proposal, the House and Senate Republican plans would fail to:

- **Protect low income students.** The President's plan protects the subsidized loan program, which provides lower interest rates to low- and moderate- income students. The House and Senate Republican bills would impose the largest rate increases on low-income students.
- **Ensure that all students have access to affordable repayment options.** The President's plan expands the Pay As You Earn program for all students, ensuring that student's monthly loan repayments do not exceed more than 10% of income. The House and Senate Republican proposals do not contain any protections for students. [CAP, [5/23/13](#), Department of Education, [4/13](#); White House, [4/13](#)]

The Administration issued a SAP before the House voted on its proposal saying President Obama would veto the bill. [White House, [5/22/13](#)]