Date of Hearing: June 4, 2013

ASSEMBLY COMMITTEE ON HIGHER EDUCATION
Das Williams, Chair
AJR 20 (John A. Pérez) – As Introduced: May 13, 2013

SUBJECT: Federal Direct Stafford Loans: interest rates.

SUMMARY: Requests that Congress and the President of the United States maintain the Federal Direct Stafford Loans (FDSL) interest rate at 3.4 percent. Specifically, this resolution:

1) Requests that Congress and the President of the United States enact legislation to maintain the interest rate of 3.4 percent for FDSL.

2) Makes the following findings and declarations:

   a) Just last year, Congress passed, and President Obama signed, an extension to maintain the interest rate for FDSL;

   b) Unless action is taken by Congress and President Obama, on July 1, 2013, the interest rate for FDSL will double from 3.4 percent to 6.8 percent;

   c) The average student loan borrower graduates with a debt of $27,000, and the scheduled interest rate increase for FDSL would cost almost 10 million borrowers an estimated $1,000 more per year of education over the life of a loan;

   d) FDSL have been a critical component for low- and middle-income students working towards a postsecondary degree, and over two-thirds of student loan borrowers are from families with annual incomes under $50,000;

   e) The higher interest rate level is the same level that graduate students and unsubsidized loan borrowers pay, which has the potential to limit access to California's public postsecondary educational institutions by discouraging students from using loans to aid in paying for their postsecondary education;

   f) Student loan debt affects Americans of all ages, including the following:

      i) Forty-five percent of all American families hold outstanding student loan debt,

      ii) Thirty-six percent of families in households headed by a person 45 to 54 years of age, inclusive, hold student loan debt,

      iii) Twenty-nine percent of families in households headed by a person 55 to 64 years of age, inclusive, hold student loan debt, and,

      iv) Thirteen percent of families in households headed by a person 65 to 73 years of age inclusive hold student loan debt,

g) Student loan debt has a ripple effect on the economy, as two million more adults 18 to 34 years of age, inclusive, live in a household headed by their parents;

h) Student loan debt has a significant impact on retirement, as 62 percent of workers 30 to 39 years of age inclusive, 20 percent of whom hold more than $50,000 in student loan debt, are projected to have insufficient resources for retirement;

i) Each new household leads to an estimated $145,000 of economic growth, suggesting that a delay in household formation could be slowing broader economic growth;

j) Raising the interest rate of FDSL will make it even more challenging for college graduates facing an already difficult post-graduation job market to repay their loans;

k) The Bipartisan Policy Center estimates that echo boomers, people born between 1981 and 1995, will account for 75 percent to 80 percent of owner-occupied home acquisitions by the year 2020, yet the current homeownership rate for echo boomers is among the lowest in decades while the mortgage interest rates are at historically low levels;

l) According to the Congressional Budget Office, the federal government makes 36 cents in profit for every dollar it lends to all student borrowers, and student loans are estimated to bring in $34 billion next year alone; and,

m) Higher education loans should be used to subsidize the cost of higher education, not to be used as a source of profit for the federal government.

EXISTING LAW: Several programs for student loans have been established under federal law through the William D. Ford Direct Loan Program, which is operated by the U.S. Department of Education's Federal Student Aid Office. These loan programs include:

1) Subsidized Stafford Loans: These are needs-based loans that cover the difference between a student's resources and the cost of attending a college or university; the amount of loan is dependent on the level of need, dependent status, and year in college. The federal government pays the interest while the student is attending the college or university and subsidizes the interest throughout the life of the loan.

2) Unsubsidized Stafford Loans: Not based on financial need, these loans generally cover the difference between the subsidized Stafford Loan and the total cost of attending college. Loans are made by private lending institutions and repayment is guaranteed by the federal government. The federal government sets the interest rates and fees.

3) PLUS (Parent Loans for Undergraduate Students): Available to creditworthy parents of dependent students. These are not needs-based and are federally guaranteed. Additionally, these types of loans have been expanded for graduate or professional degree students. The borrower is responsible for paying the interest on PLUS loans during all periods, starting from the date the loan is first disbursed.

Before July 1, 2010, Stafford, PLUS, and Consolidation Loans were also made by private lenders under the Federal Family Education Loan Program. As a result of the *Health Care and*

Education Reconciliation Act of 2010, all new Stafford and PLUS Loans come directly from the Department of Education under the Direct Loan Program.

FISCAL EFFECT: Unknown. This resolution is keyed non-fiscal by the Legislative Counsel.

COMMENTS: Background. Congress last year passed, and President Obama signed into law an extension to maintain the current interest rate for FDSL at 3.4 percent through June 30, 2013. On July 1, 2013, unless actions are taken, the interest rate for FDSL will double from 3.4 percent to 6.8 percent, costing student loan borrowers to pay significantly more over the life of their loans.

The cost of higher education has increased over the last decade, forcing students to take out increasingly higher levels of debt to finance their education. The College Board's Trends in Student Aid 2011 report notes that over the decade from 2000-01 to 2010-11, undergraduate borrowing increased by 56 percent per full-time equivalent student. In California, cuts to public higher education institutions have had an impact on how students finance college and where they choose to attend school. In June 2012, the Public Policy Institute of California issued, *Defunding Higher Education*, which found that, from 2007-2011, fees at the University of California (UC) increased by 50 percent and by 47 percent at the California State University (CSU).

In October of 2012, The Institute for College Access and Success (TICAS) issued, *Student Debt and the Class of* 2011, which found that state averages for debt at graduation from four-year colleges ranged widely in 2011, from $17,250 to $32,450. TICAS found that two-thirds of college seniors who graduated in 2011 had student loan debt averaging $26,600.

Additionally, TICAS found that the average debt of California college graduates (from four-year public and private nonprofit colleges) in 2011 was $18,879 and 51 percent of California students graduated with debt. California ranks 46 among the 50 states and the District of Columbia in average student debt and 41 in percentage of students graduating with debt. To note, high-debt states are mainly in the Northeast and Midwest and low-debt states are mainly in the West and South.

Federal Direct Student Loans. FDSL are loans for eligible students to help cover the cost of higher education at a four-year college or university, community college, or trade, career, or technical school. The U.S. Department of Education offers eligible students at participating schools direct subsidized loans and direct unsubsidized loans. The goal of FDSL is to make higher education more accessible to Americans by providing reliable financial assistance to students that qualify. These loans play a critical component, in addition to other forms of financial aid, for low- and middle-income students working towards a postsecondary degree; over two-thirds of student loan borrowers are from families with annual incomes under $50,000.

To maximize accessibility to higher education, subsidized FDSL have a fixed interest rate of 3.4 percent. The current interest rate has been the subject of debate at the federal level as it relates to the impact of the sequestration and new budget proposals.

Need for the resolution. According to the author, "A doubling of the student loan interest rate will only exacerbate the unacceptable trend of skyrocketing student loan debt. Other proposals seek to increase the interest rates for Stafford Loans without any limit, which can further drive students into debt and out of higher education. Ensuring that FDSL continue to have low interest rates is crucial to keeping higher education accessible and affordable for all Americans."

According to the University of California Office of the President (UCOP), during 2011-2012, the most recent year for which UCOP has full information from all UC campuses, about 78,000 low-income UC undergraduates who demonstrated financial need borrowed $337,586,878 in subsidized FDSL at an interest rate of 3.4 percent. Additionally, many UC graduate and professional degree students and also parents of undergraduates borrowed unsubsidized FDSL, as well as Graduate PLUS and Parent PLUS loans. Those borrowers, too, would be affected by a change in how Congress decides to set federal education loan interest rates going forward.

According to the CSU Office of the Chancellor, during 2011-2012, the most recent year for which the CSU has full information from all CSU campuses, approximately 146,000 undergraduate and teacher credential CSU students received subsidized FDSL.

According to the California Community College (CCC) Chancellor's Office, most CCC students do not take out FDSL.

REGISTERED SUPPORT / OPPOSITION:

Support

University of California

Opposition

None on file.

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