



Iowa

How Iowa Will Be Affected if Stafford Loan Interest Rates Double

May 2012

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.

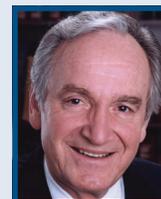
The financial and economic crisis of those years marked a period of widespread declines in household debt levels. Mortgages and credit cards declined as households repaid their debt and banks foreclosed on bad debt. But the same was not the case for education

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.



Chuck Grassley
(R)
NO



Tom Harkin
(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 recipients

Education 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 Iowa

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	9.2%
High school completion rate	82.6%
College completion rate	62.9%
Change in higher education spending	-2.6%
College graduates with debt	72%
Average debt upon college graduation	\$29,598
Number of Stafford Loan borrowers	255,404
Average savings if rate unchanged (per borrower)	\$993
Total savings if rate unchanged (statewide)	\$253,616,172

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 Iowa

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.

Lori from Waterloo, Iowa

"I have a high school senior who has worked hard to maintain a very respectable GPA. She has received some very generous offers of scholarship money for this through private colleges. She is still looking at minimum \$18,000 worth of debt every year for four years. We don't want her to carry this kind of debt. My husband and I are now trying to secure our financial future and pay down debt. Even though it appears we should be able to pay for her college, we are not in a financially secure position to do that. She will need to pay the college bill herself. She will take out loans for this as she does not qualify for any kind of assistance. If she has to pay that high of interest, I will recommend that she not go to college now. Please consider what this effect will have on our workforce, on the future of these young people, and on the economy."

Mark from Grinnell, Iowa

“I wouldn’t have been able to attend college without low-interest student loans. I had no family help during my undergraduate career and, though I worked full-time to support myself, tuition would have been out of my reach without help. Having a low monthly payment after graduation helped me to get established as a professional, and I paid my loans off years ahead of time. Your vote against an increase in the student loan rates will help ensure that Iowans like me have the same chance I got.”

John from Davenport, Iowa

“I was fortunate enough to graduate from undergrad with no student loans. However, to finance my graduate degree, (I hold a J.D. from the University of Iowa College of Law) I had to take out student loans. In the interest of economic prudence, I did delay starting law school until after I had attained residency status so that I could qualify for in-state tuition. I started law school in the fall of 2007 and graduated on time in the spring of 2010. I graduated in the top half of my class. However, the high paying jobs that were plentiful when I entered law school were almost nonexistent at graduation. I was fortunate enough to find a job at a small firm, but I am making about 40 percent of what I anticipated. Last year, I paid \$8,492.94 in interest on my student loans. This amounts to approximately 14.7 percent of my gross annual income. I try to live frugally. For example, I drive the same ‘99 Honda Accord that I’ve owned since undergrad. Even so, I am having a hard time saving any money due to my student loan burden. By helping to alleviate the student loan burden, Congress could effectively pump consumer dollars back into the sputtering economy.”

Don from Roland, Iowa

“My son and daughter-in-law both have considerable debt from their college days. They both graduated with high GPAs and are gainfully employed. But they are fortunate. I do remember when our society made it less difficult for a deserving student to attend college, and find the results from that period highly desirable over the results we see presently. I believe educating the public is one of the best investments a society can make.”

Anita from Muscatine, Iowa

“I teach at a community college and see the struggle students experience balancing school with family and multiple jobs. Our future depends on an educated citizenry.”

Recent in-state press coverage

“The average amount Iowa students will borrow next year is just over \$4,000. If the interest doubles, this will cost those students an extra \$993 over the life of that loan. These students should not graduate from college with that extra burden.”

— “Support Obama plan against raising interest rates on student loans,” *Iowa State Daily*, Iowa State University, 5/4/12

“Iowa students are carrying the third highest debt load in the country, and we can’t afford to see interest rates double. We have had the largest five-year decline in state funding for public universities of all Midwest states.”

— “Iowa View: Cutting funding is no solution for education,” *Des Moines Register*, 5/4/12

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:

- Melanie Wink, William Penn University, Iowa
- Nicholas Pottebaum, University of Iowa, Iowa
- Gregory Larson, Drake University, Iowa

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>