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Florida

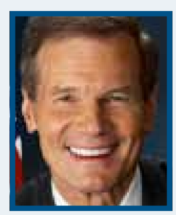
How Florida Will Be Affected if Stafford Loan Interest Rates Double

May 2012

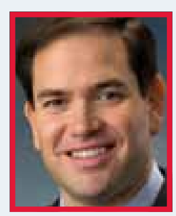
More than 7 million students and their families rely on federally subsidized Stafford loans to help pay for college.[1] The loans are distributed by the U.S. Department of Education and currently hold an interest rate of 3.4 percent. But that rate is set to double if Congress fails to act by July 1, 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.

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.



Bill Nelson (D)
YES



Marco Rubio (R)
NO

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 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 receipients

Edcucation 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 Florida

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	18.2%
High school completion rate	61.1%
College completion rate	64.7%
Change in higher education spending	-12%
College graduates with debt	49%
Average debt upon college graduation	$21,184
Number of Stafford Loan borrowers	452,770
Average savings if rate unchanged (per borrower)	$979
Total savings if rate unchanged (statewide)	$443,261,830

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 Florida

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.

Christine from Miami, Fla.

"Not only did I have to take out loans, but I continuously apply for scholarships. I currently work two jobs in an effort to save money to pay off my loans early and afford other things. I still had to pay out of pocket for my education. I also planned on graduating early because I could not afford to take out any other loans, taking six classes each semester and summer classes to finish early.

I am not able to fully experience the college life, like participating in co-curricular activities, because of my two jobs and workload. I also have a passion for community work and non-profits, but when I think about having to pay off the debt when I graduate, it discourages me."

Christina from Mirimar, Fla.

"I am the first person in my family to attend and graduate from college and grad school. Now, I am a physician assistant working in surgery. Thanks to student loans, I was able to attend school, because my parents could not afford it. But now, I am facing $20,000 just in interest! Not to mention the $198,000 that I truly owe! Stop exploiting students like me. Let me enjoy the life I worked so hard to obtain!"

Jo-Lynn from St. Petersburg, Fla.

"I have graduated and was lucky enough to find employment using my degree in journalism, but thanks to student loan payments I have no discretionary money—nothing for savings and I'm not contributing to a 401(k). I don't even have a phone. Student loan companies look at your adjusted gross income, so anything that is taken out for taxes, 401(k)s, or health insurance is considered your pay, even if you never see it. This makes it harder for people to qualify for deferments and other help. I was about $100 away from being considered under the poverty line, so I'm literally expected to pay nearly half of my monthly take home income. Luckily, I have consolidated my federal loans, and I'm working it out. But Sallie Mae is incredibly unforgiving. When I did have a phone, they called me nonstop. They harass my former place of work because I was foolish enough to use my old boss as a reference. They keep trying to contact my grandmother, who was a cosigner for a loan nearly 10 years ago, even though I have explained that she is in a nursing home. I take responsibility for my debt. I guess I'll never pay it off in full and I'm one emergency away from defaulting altogether. But my biggest concern is kids coming out of high school now, because it's only going to get harder for them."

Recent in-state press coverage

"In Florida, 453,000 students have subsidized Stafford loans and can expect to save an average of about $1,000 if the rate is kept at 3.4 percent instead of doubling. Nationally, the average subsidized Stafford loan amount totals about $9,000 a student. … It's a good use of taxpayer money to make college a bit more affordable and the future a lot brighter for the 7.4 million students who will need subsidized Stafford loans this year."

— "Keep student loan rates down," *Tampa Bay Times*, 4/26/2012

"Government subsidized Stafford loans are a vital source of financing for low- and middle-income students; nearly half of college students graduate with subsidized Stafford loan debt. … A possible rate increase bodes especially ill for Florida's college students, who see their tuition costs rise about 15 percent a year "

— "Keep student loan rates down," *Central Florida Future*, University of Central Florida, 4/22/2012

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:

- Brandon Mitchell, University of Miami, Florida
- Nawara Alawa, University of Miami, Florida
- Brian Goff, University of South Florida System, Florida
- Matthew Diaz, University of South Florida System, Florida
- Carlo Fassi, University of North Florida, Florida
- Cristin Battle, Florida International University, Florida
- Sholom Neistein, Florida International University, Florida
- Mike Long, New College of Florida, Florida
- Peter Cuderman, Florida Gulf Coast University, Florida
- Robert Huffman, Florida Atlantic University, Florida
- Julian Coakley, Florida Memorial University, Florida

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