



Georgia

How Georgia 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.



Saxby Chambliss
(R)
NO



Johnny Isakson
(R)
NO

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 Georgia

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	18.4%
High school completion rate	59.3%
College completion rate	56.7%
Change in higher education spending	-11.5%
College graduates with debt	55%
Average debt upon college graduation	\$18,888
Number of Stafford Loan borrowers	225,008
Average savings if rate unchanged (per borrower)	\$913
Total savings if rate unchanged (statewide)	\$205,432,304

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 Georgia

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.

Jeffrey from Grovetown, Georgia

"I am a veteran who is racking up student debt while I complete a surgical program. The [Department of Veterans' Affairs] pays my tuition, but the loans keep my head above water while I finish school."

Edith from Atlanta, Georgia

"I am a retired university professor, and I cannot begin to tell you the number of amazing students I have taught who could not have gone to college without loans, and who then spent far too many of their working years paying those loans back. What are we thinking? College shouldn't put one in debt until he is eligible for Social Security!"

Lottie from Atlanta, Georgia

“My granddaughter had to drop out of school because the tuition was too expensive. She had to go to work and not having an education like the other employees she was laid off. This needs to stop. If our children have to pay such a great amount of student loans, how will they be able to finish college?”

Darryl from Evans, Georgia

“I’m blessed not to have student loan debt. I was able to attend college and get my bachelor’s and master’s while I was in the military. I saw how many enlistees had to come into the military because they couldn’t afford their college bills anymore. Not everyone is rich and can afford a \$5,000 hike in their tuition bills. Why do we protect Wall Street bankers and other CEOs but not vulnerable college students who are supposed to be our future?”

Paul from Decatur, Georgia

“Sending my son to college costs four to five times what it cost when I went 30 years ago. If he goes to the school he’d really like to, he will need to make \$30,000 to \$50,000 starting salary in order to pay his debt off in ten years. If he makes a healthy \$25,000, he will be hard-pressed to pay his other bills. A good college education should not be that far out of reach for an average American family.”

Tracey from Atlanta, Georgia

“My daughter is three-fourths of the way through her four-year degree. I lost my job last year and have been unable to obtain another that compares to my previous salary. We are just hanging in there and cannot afford the greater debt of college tuitions going up when we have less than one-fourth of the income in previous years. We are far from the only ones experiencing this economic upset.”

Jean from Brooklet, Georgia

“My three-tour combat Marine Corp son’s GI Bill didn’t even come close to covering his college loans and still had to borrow money for college. He graduated from GSU and applied for numerous jobs here in Georgia. [With] no job offers, he went back to school for a Master’s. He finished and still had no job, so my husband and I supported him and took \$35,000 out of our 41K, which had been hit hard, to help him stay afloat so he wouldn’t have to file bankruptcy like his sister, [who also graduated from] GSU.”

Lynn from Douglasville, Georgia

“My youngest daughter graduated college in 2007 with a BSN in nursing. She also graduated with \$40,000 in student loans, which she has been struggling to pay back even though she has a good job. She has a family to support, her husband works two jobs as well, but having to pay out nearly \$500 a month to repay this debt is very rough on them. Please vote against doubling interest rates, and do it without trying to steal from the health programs needed so badly. I am in my 50s, self-employed with no health insurance, and not able to afford the ghastly high rates that industry would have me pay monthly.”

Recent in-state press coverage

“As the average cost of loans has steadily risen in recent years, the average number of students taking out those loans has risen proportionately. According to the College Board, approximately two-thirds of graduates with bachelor degrees have student loans.”

— *“Debt burden on students reaches record high,”* *Technique*, Georgia Tech University, 11/4/2011

“The interest rate on the Stafford subsidized student loans is set to double in July, going from the current 3.4 percent to the 6.8 percent that is in the federal statute governing the loan. That has a lot of students worried that they won’t be able to meet their financial obligations, so much so that more than 130,000 letters have been sent to Congress asking them to stop the increase.”

— *“Students facing bigger debt,”* Albany Herald, 3/16/2012

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:

- Brian Ellison, Southern Polytechnic State University, Georgia
- Travis Randle, Morehouse College, Georgia

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>