



## Michigan

### How Michigan 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.<sup>1</sup> 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.

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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.<sup>2</sup> 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.



**Carl Levin**  
(D)  
YES



**Debbie Stabenow**  
(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.<sup>3</sup> 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
<b>Distribution of education loans</b>			
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.

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## The state of higher education in Michigan

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	13.7%
High school completion rate	71.1%
College completion rate	54.8%
Change in higher education spending	-12.2%
College graduates with debt	60%
Average debt upon college graduation	\$25,675
Number of Stafford Loan borrowers	303,368
Average savings if rate unchanged (per borrower)	\$976
Total savings if rate unchanged (statewide)	\$296,087,168

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.

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## How doubling Stafford interest rates will affect families in Michigan

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.

**Richard from Traverse City, Mich.**

"I have set aside \$150,000 for the education of my 2 children. This is not enough for 4 years of tuition and board in the state university system. It is entirely unfair that, on top of this onerous financial burden from a public institution, my children should be required to pay consumer credit rates on whatever they will have to borrow to complete their education. These loans cannot be disposed in bankruptcy and hence carry little risk. Why should they be double mortgage rates? I constantly hear how our children should not be burdened by growing federal debt. Why then should they be handicapped by enormous usurious debt obligations arising from a federal unwillingness to fund secondary education? Doesn't make sense."

**Katlin from East Lansing, Mich.**

“Currently, I am a college student and already I am \$27,000 in debt. In order to actually get a career in my field of study, I must attend graduate school, which will bury even deeper in debt. I have been working my whole college career just to afford school, but I needed the financial aid to help. Please help me and people like me, who are drowning in debt.”

**Karen from Manistee, Mich.**

“My two children each have student loan debt. One of them has completed his Master’s degree and is contemplating becoming a psychiatrist; however, the cost of his continuing his education is formidable considering the student loan debt he already has. ... My second son has been a police officer for six years, with a criminal justice degree. With the recent attacks on police officers and public service benefits in Michigan, his compensation is decreasing, but his student loan interest rates are not. You can purchase a home at a lower interest rate than you can get student loans for. This is not right.”

**Linda from Detroit, Mich.**

“My son is presently incurring student debt while attending college as I type this message. As a retired teacher on fixed income, his debt is also my debt. Do the right thing for citizens who are doing the right thing!”

**Janet from Haslett, Mich.**

“We will be sending our oldest child to college next fall and will have children in college for at least the next eight years. We have been responsible about saving only to see their college savings plans tank by 40 percent in the fall of 2007. Neither our college nor retirement savings plans are earning much. We are older parents and will be facing retirement shortly after our children finish college. Both we and our children will need to take out loans to cover the cost of their education. Meanwhile, the funding to colleges is being cut, and they raise tuition commensurately. This all is compounding the problem and making higher education out of the reach of many. ... Education is the best investment we can make in our children and our country. We need to keep it affordable and accessible to all our citizens, not just the wealthy.”

**Crystal from Kalamazoo, Mich.**

“I’m a full-time student with a part-time job who is barely making it. My parents can’t provide me any aid and, without the government’s help, I wouldn’t be able to attend college. I’m trying my best to set myself up for a good future. Please ensure that students like me will continue to get aid.”

**John from Mt. Pleasant, Mich.**

“I am a college professor who talks to students every day who are concerned about their mounting debt. These students are the future of our country and deserve every opportunity to share in the American dream.”

### Darla from Traverse City, Mich.

“I have been an online teacher for over 20 years and have student loans of my own after going back to school as a single mother with three daughters to attain a second Master’s degree to further my profession. ... Please do not raise interest rates. College is become more out of reach for so many and I want to see my children—ages 7, 11 and 14—be able to go. Thank you!”

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### Recent in-state press coverage

*“The greatest threat facing the U.S. economy isn’t peak oil, the Eurozone crisis or competition with China; outstanding student debt is already beginning to cripple spending and has the potential to create multiple lost generations.”*

— “Student debt requires drastic solution, greater oversight,” *Central Michigan Life*, Central Michigan University. 4/25/12

*“It would border on criminal to charge [students] higher interest [on their loans] in the current economic environment, when the federal government is borrowing at rates well below 3.4%.”*

— “With college costs rising, keeping student loan rates low is smart,” *Detroit Free Press*, 4/27/12

More than 200 student body presidents who represent more than 3 million American students recently wrote to Congress,<sup>4</sup> asking them to prevent the Stafford interest rates from doubling, including:

- Ervis Fama, University of Detroit-Mercy, Michigan

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### 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](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>