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New Jersey

How New Jersey 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

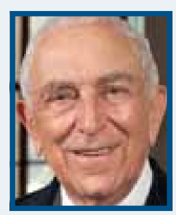
Below is an excerpt from a recent column, "Student Loan Debt Seems to Rise No Matter What the Economy Does," by Center for American Progress Senior Fellow Christian Weller.[2] Weller explains that education cost and debt increased during the recent recession while other forms of household debt declined. 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.

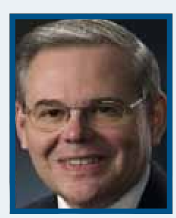
The financial and economic crisis of those years marked a period of widespread declines in household debt levels. Mortgages and credit cards declined as households repaid their debt and banks foreclosed on bad debt. But the same was not the case for education

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.



Frank Lautenberg (D)
YES



Robert Menendez (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 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 New Jersey

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	14.0%
High school completion rate	86.4%
College completion rate	63.3%
Change in higher education spending	-2.5%
College graduates with debt	66%
Average debt upon college graduation	$23,792.00
Number of Stafford Loan borrowers	143,892
Average savings if rate unchanged (per borrower)	$982
Total savings if rate unchanged (statewide)	$141,301,944

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 New Jersey

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 invests for the future instead of being held back by student loan debt.

Lori from Vineland, N.J.

"Six years ago, at 45, I graduated with an Associate's degree. Now at 51, I need to continue my education toward a Bachelor's degree. I've worked very hard all my life, often holding down two jobs, and even though I worked full-time most of the full-time jobs I've had did not offer health insurance. They paid miserably and offered no advancement with little to no possibility of improving my financial future. Even now, the degree I have does little to give me access to living wage jobs. I went to school late in life only because of the opportunity to take advantage of financial assistance. Without it, I could not have afforded to further my education. Do not deprive others the chance to improve their lives by making financial aid unavailable."

Alan from Union, N.J.

"My wife recently completed her [Bachelor of Science in Nursing], years after graduating nursing school with a Registered Nurse degree. The payments are difficult enough for a two-income family with two children; I cannot imagine how much more difficulty a young graduate would have in repaying loans with higher interest rates. An increase in interest rates would simply increase the number of defaults while raising an additional barrier to low-income students."

Lynn from Verona, N.J.
"I left college in large part because I could not justify saddling myself with a debt that would take four years' [worth of] salary at my intended profession to pay. Please do not even consider heaping double interest rates on students, who are our nation's future, without first passing the Buffet Rule. Corporate America reaps the benefits of an educated workforce, yet is allowed to shirk its responsibilities to society. … It's past time [Congress] stopped pandering to the 1 percent who bankroll your campaigns and started answering to the 99 percent, who elect and pay you."

Julian from Guttenburg, N.J.
"Pell Grants and student loans helped me and my kids attend school. If the government can't help our youth obtain a degree, what good is the government for? America needs higher education now more than ever. Please don't destroy America's future."

Joseph from Holmdel, N.J.
"Our family is still paying off three college loans for two recent college grads. While helpful to get us through the college years, the ongoing payments are a challenge. (As Dad, I am paying two of three loans because one of my kids is not earning much.) We can manage, but I know it's much worse for many now and college is now an iffy investment. To keep the USA well educated, we need to make college more affordable for more people."

Stephanie from Jersey City, N.J.
"For years the government has been pushing for kids to go to college. Well, guess what? We now have a college tuition bubble. My daughter just received merit awards totaling $28,000 from Drew University, which would barely make a dent in the $59,000 yearly tuition—even though it's 50 percent less than retail. We've got to make it easier for kids, who should go to college and not graduate with $100,000 in debt as so many now have."

Cheryl from Yardville, N.J.
"I have two students in college programs and both are in debt, one much more so than the other. I worry how the one will pay off the loan and if he will even be able to find a job. I think we will end up having to help them out in our retirement years. The college loan debt has exceeded credit card loan and I believe it is the next economic crisis. I wonder how the future generation will be able to qualify to buy a home, or even a car for a job, when they already hold such enormous debt from college loans. We must keep their debt as low as possible."

Denise from East Hanover, N.J.

"I had many student loans while I was getting my college degrees, as did my sister. Now my nieces are struggling with the same issues. I was lucky enough to find a job right after graduation, but the loan payments took a huge chunk out of those paychecks, and I ended up using credit cards to buy food and other essentials because I had to pay the loans or would be hounded by the companies. I don't want this series of events to happen to my nieces, who are trying to get good educations necessary in our world. I want their lives to be open, with choices. As a single parent supporting two daughters, my sister could use some help. We are middle class and do not come from or have any money outside of paychecks from a job."

Recent in-state press coverage

"A 3.4 percent increase in student loan interest rates could seriously harm the ability of lower-income students to pay for college… many Americans cannot afford the costs… Even now, without the increase in the interest rates, students are graduating with substantial debt… Washington needs to put aside election-centered political squabbling and prioritize the needs of the American student."

— "Student loans," *The Daily Princetonian*, Princeton University, 5/7/2012

"Over the past 30 years, the gap between earnings of college graduates and high school graduates has tripled. Planning for the future means staying in school now. Students and society will reap the rewards down the road. But not if students abandon their dreams because they are too costly."

— "Congress needs real solution to ease student debt burden," *Star-Ledger* Editorial, 4/27/2012

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:

- John Pinel, Fairleigh Dickinson University, New Jersey
- Barbara Cannell, Raritan Valley Community College, New Jersey
- Yousef Salef, Rutgers University-New Brunswick, New Jersey

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