



Wisconsin

How Wisconsin 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. 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.

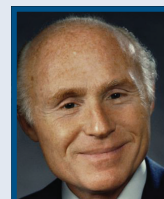
The financial and economic crisis of those years marked a period of widespread declines in household debt levels. Mortgages and credit cards declined as households repaid their debt and banks foreclosed on bad debt. But the same was not the case for education

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.



Ron Johnson (R) NO



Herb Kohl (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. 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 Wisconsin

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	15%
High school completion rate	85.3%
College completion rate	58.0%
Change in higher education spending	-20.9%
College graduates with debt	67%
Average debt upon college graduation	\$24,627
Number of Stafford Loan borrowers	163,427
Average savings if rate unchanged (per borrower)	\$968
Total savings if rate unchanged (statewide)	\$158,197,336

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 Wisconsin

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.

Sarah from Madison, Wis.

"I have worked my way through college, working up to three jobs at a time to help mitigate the rising costs of my education. Yet, I will be graduating with over \$60,000 of debt. The cost of living and job wages do not align with the cost of education and could leave me paying for it for the rest of my life. When can I save for retirement?"

Barbara from Sun Prairie, Wis.

"My son's girlfriend put herself through school, working both part- and full-time—some years at the technical college level earning first an associate degree and then returning for the first two years' credit. She then transferred to the University of Wisconsin-Madison and earned her BA. She also accrued \$30,000 to \$35,000 of debt. Monthly, [the payments are] more than her rent. This is a good woman doing all the right things, but it is very hard to get ahead with that amount of debt hanging over one's head."

Rochelle from LaCrosse, Wis.

“I was a single mother, working two jobs to put myself through college. I took out a student loan my last year so I could quit one of my jobs to concentrate on school and family. If it wasn’t for the student loan, I would not have been able to graduate and thus be employed at good job. My oldest daughter will be starting [Registered Nurse] school soon and will also need a student loan. My two youngest daughters will also need student loans to complete college and thus be able to get a better job. Please hold the line on student interest rates. Those that work hard in junior and senior high school should be able to go to college even if they come from a family that isn’t able to financially help them. This is America and the more educated our nation is, the more powerful we are.”

Patricia from Cudahy, Wis.

“I have my own student loans, and another that I ‘co-signed’ for my son. My wages at a part-time job are garnished for one of these loans, and I am trying to pay off the other one from my Social Security checks. Very difficult. The last thing ... struggling graduates need is an increase in our indebtedness for an education which hasn’t proven to be very useful.”

Kim from Prescott, Wis.

“I have a student loan that I am still paying back. I also have one adult child that is in school and get student loans due to the fact that I do not have the money to pay for her education. I have a high school student that will be a senior next year and intends on going to college or a technical school. Please do not raise the cost of student loan interest. It is already high enough. To raise it would possibly cause people to not attend if it is too expensive. The next generation will eventually be our leaders—do we really want uneducated people running our government and corporations? That does not look like a success story for our country.”

Jeanne from Oshkosh, Wis.

“I am a mother of four returning to college due to a loss of employment last year. My company closed due to foreign competition. I was the marketing manager and could not find a job due to the economy. I am back in college and the first of my four children is registered for college next year. My children are beginning their lives and, with skyrocketing tuition, their lives will be starting with huge debt. What kind of a life is this allowing the next generation to have?”

Paula from Deerbrook, Wis.

“We have a son who is just finishing college and a daughter who will be starting in the fall. The thought of their student loans becoming too large to handle is hard to take. The only way we could afford for them to go to school was with the help of student loans. It seems strange that there is money for oil subsidies but not for education— unless it’s taken from some other program that helps the middle class.”

Cheryl from Manitowoc, Wis.

“Both of my children have college degrees and tons of student loan debt. My daughter has been unable to find a teaching position and has had to defer several of the loans. She is subbing and working part-time night and weekends and has no insurance. Her husband will have a teaching degree in December and is still borrowing to get his degree. He works part-time and also has no insurance. I don’t see how these two will ever be able to afford a home and children—they can’t find jobs and will be in debt for many, many years. I know many young people in this same situation. They are the ones who cannot spend money on things that keep businesses open and the economy going. In the long run, if we do not put a priority on education and paying decent wages, the economy will continue to tank. Please help our nation to get back on its feet, starting with allowing all students access to education!”

Audrey from Green Bay, Wis.

“I worked over 30 years at a university with so many bright young people who would have not been able to get an education without student loans. Educational opportunities should be for everyone who wants them, not just for those who are fortunate enough to be able to ‘pay as you go’ or get athletic scholarships, etc. Give our young people a break. If it takes longer for them to get a job to pay back these loans, at least allow them to keep the interest rate low. Also, do something to ensure that there are jobs for these people. Please stop worrying about the rich and care about the majority of the people.”

Susan from Ripon, Wis.

“My husband and I are paying for our children’s undergraduate college loans. We will never be able to retire because of this large debt. We did not want our children to be forced to work in terrible dead-end jobs just to be able to make their loan payments. We figured it was our lives or theirs. It is a shame that there is not some way to make college affordable and loan interest rates lower.”

Jill from Wisconsin Rapids, Wis.

“I am a retired school teacher who taught in a low-income school district. For most students, any chance of going on to higher education meant receiving government loans. Why make getting an education more difficult for them and life more difficult for those who have graduated?”

[Recent in-state press coverage](#)

“U.S. student loan debt has surged above \$1 trillion. Instead of talking about the issue, as our federal elected officials have been doing for years, it’s time to chip away at the problem. It’s not a matter of letting new graduates off the hook if they can’t pay. Since they took out the loans to attend college, they have an obligation to pay them back. But we must start mitigating the problem on the national level as well. Student loan debt isn’t someone else’s problem. We all have a stake.”

— “Let’s chip away at student loan crisis,” *Appleton Post-Crescent*, 4/11/12

“Rising tuition, a dearth of jobs and the length and amount of student loans have watered down the advantages [of a college degree]. Those who would benefit most from making the leap into higher education are faced with a demoralizing reality: a lifetime of debt. For many in the middle class, the possibility of a college degree is slipping away. Soon, if not already, the great equalizer that is higher education will become one more factor dividing the haves from the have-nots.”

— “Student loans divide the haves from the have-nots,” *Green Bay Press-Gazette*, 5/4/12

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

- Adam Strozier, Wisconsin Technical College, Wisconsin
- Beth Huang, University of Wisconsin-Madison, Wisconsin
- Virginia Cassel, Milwaukee Area Technical College, Wisconsin

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>