Minority Views
H.R. 1911, "Smarter Solutions for Students Act"
113th Congress, 1st Session
May 20, 2013

Overview

Committee Democrats adamantly oppose H.R. 1911, the Smarter Solutions for Students Act. Under the guise of addressing the coming July 1 increase in interest rates for subsidized Stafford loans, the bill alters interest rate calculations for all loans and makes college education more expensive for American students and their families. In fact, instead of offering a solution to the interest rate hike, the bill makes matters worse. Congress should act to stop the interest rate hike in the short-term and find longer term solutions to reduce, not exacerbate, the cost of attending college.

Student loan debt now exceeds $1.1 trillion in total, and the Federal Reserve has found that student debt now surpasses aggregate auto loan, credit card and home equity debt. Only debt on home mortgages is greater than student debt. Increasing student loan debt is not just a burden carried by individuals, but also a drag on our economy. Graduates with high levels of debt cannot afford to fully participate in the economy. Student loan debt affects a range of life choices, from where they live to their ability to buy a car, own a home or start a family.

H.R. 1911 The GOP Bill Worse Than Doing Nothing At All

According to the Congressional Budget Office (CBO), H.R. 1911 will set students further back by increasing the interest rates they pay for student loans.[1] The Republican proposal seemingly offers lower rates to students next year; however, those rates are highly variable. That is, the rates on the same loans will change year-to-year, leading to higher interest rates that will be more than double the rates that millions are paying today.

CRS found that students and families would pay higher interest costs under the Republican proposal than they would even if Congress took no action and interest rates doubled as scheduled for the neediest students in July. The figures below are based on a standard repayment period of ten years:

[1] http://democrats.edworkforce.house.gov/press-release/gop-student-loan-bill-would-make-college-more-expensive-new-independent-nonpartisan

- Students who borrow the maximum amount of subsidized Stafford loans over five years would pay $10,109 in interest payments under the Republican bill, $4,174 if rates were kept at 3.4 percent or $8,808 if rates are allowed to double to 6.8 percent in July. Freshman starting next year would initially receive 4.4% loans only to have them skyrocket to almost 8% by the time they start to repay.

- Students who borrow the maximum amount of subsidized and unsubsidized Stafford loans over five years would pay $14,430 in interest under the Republican bill, $12,598 if subsidized loans were allowed to double in July, or $7,965 if rates don't double.

- Parents and graduate students would also pay more under the Republican bill. For instance, a parent who borrows the maximum amount for their child over five years would face $35,848 in interest payments under the Republican bill, more than the $27,956 under current law.

These added costs are a function of the markup that H.R. 1911 adds to 10-year treasuries to establish an interest rate and the variability of those rates from year to year. Using CBO's projections, those interest rates quickly climb above current law's 6.8% rate for Stafford loans and 7.9% for PLUS loans.

Fiscal Year	Proposed Stafford Loan Interest Rates Under H.R. 1911	Proposed PLUS Loan Interest Rates Under H.R. 1911
2013	4.4	6.4
2014	5.0	7.0
2015	5.7	7.7
2016	6.6	8.6
2017	7.4	9.4
2018	7.7	9.7
2019	7.7	9.7
2020	7.7	9.7
2021	7.7	9.7
2022	7.7	9.7
2023	7.7	9.7

Republicans' H.R. 1911 will allow interest rates to more than double for the neediest students. Under Kline's plan, an incoming freshman next year who makes full use of the Subsidized Stafford loan program will likely enter repayment in 2018 and will have a 7.7% interest rate on all of their loans.

H.R. 1911 will increase interest rates for millions of borrowers above current fixed rates for 7 of the next 10 years. A parent or graduate student borrowing PLUS Loans next year would initially have a 6.4% rate. However, in 2016, three years later, that rate will increase to 8.6%.

Republican H.R. 1911 Will Increase Student Debt for Deficit Reduction

To further confirm how detrimental H.R. 1911 is to students and their families, the Congressional Budget Office recently calculated that that the Republican bill will cost students and parents $3.7 billion in additional student loan interest charges over the next 10 years.[2] That increased student loan debt is directed to the deficit. Republicans want to solve the potential consequences of the national debt on our children by placing almost $4 billion immediately on the backs of students before they may have received their first job or paycheck.

Republican H.R. 1911 Further Deepens the College Debt Crisis, Already Topping $1.1 trillion.

Saddling students with higher interest rates means the GOP is adding billions to the crushing debt already carried by college students and their families. Increased debt burdens make it harder for graduates to fully participate in the economy.

Evidence of this trend is supported by data from the U.S. Census Bureau that shows nearly 6 million Americans ages 25 to 34 lived with their parents in 2011, up from 4.7 million reported in 2007.[3] A recent report by the Consumer Financial Protection Bureau (CFPB) suggests the reduction in young people buying their first home is caused in part by high student debt levels that don't leave sufficient

[2] Ibid.
[3] Random Samplings: Households Doubling Up. U.S. Census Bureau http://blogs.census.gov/2011/09/13/households-doubling-up/

resources necessary to start a new family.[4] The National Association of Realtors has also documented a decrease in first-time homebuyers – they are now only 30% of the market compared to historical levels of 40%.[5]

This reversal of purchasing by college graduates with debt is true with motor vehicles as well. According to the Federal Reserve, college graduates funded auto purchases at a rate 3 to 4 percentage points greater than their non-college peers in the past. Today these student borrowers were actually less likely to hold auto debt.[6]

A recent report by the CFPB confirmed that spiraling student debt is having profoundly negative consequences for the economy in many ways in addition to home ownership. For example, many comments to the CFPB suggested student debt "may suppress risk-taking and innovation by discouraging the formation of new business by young entrepreneurs." The report also documents concern that higher student debt is leading to fewer young people going into the teaching profession, and is altering the nature of rural communities by creating obstacles for student borrowers from returning to rural communities after college.[7]

The Kline bill exacerbates these harmful economic trends by piling on billions of dollars more in student loan debt.

It should be noted that, in the FY14 budget, the Obama Administration called for a long-term variable student loan change. Chairman Kline has suggested his bill is very similar to the Obama proposal, but, in fact, there are stark differences. For example, the President's proposal provides lower interest rates than the Kline bill. Those rates are variable, but they are fixed for the life of any loan, rather than variable for the same loan year-to-year as in H.R. 1911. The President's proposal also expands income-based repayment programs to all borrowers, whereas the Kline bill provides for no repayment assistance.

The White House summed up its differences with H.R. 1911:

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[4] Student Loan Affordability. Consumer Financial Protection Bureau. http://www.consumerfinance.gov/reports/student-loan-affordability/

[5] First-Time Home Buyers: 31 Percent of Residential Buyers. National Association of Realtors. http://economistsoutlook.blogs.realtor.org/2012/09/27/first-time-home-buyers-31-percent-of-residential-buyers/

[6] Young Student Loan Borrowers Retreat from Housing and Auto Markets. Federal Reserve Bank of New York. http://libertystreeteconomics.newyorkfed.org/2013/04/young-student-loan-borrowers-retreat-from-housing-and-auto-markets.html

[7] Student Loan Affordability. Consumer Financial Protection Bureau. http://www.consumerfinance.gov/reports/student-loan-affordability/

"While we welcome action by the House on student loans, we have concerns about an approach that both fails to guarantee low rates for students on July 1 and asks too many of them to bear the burden of deficit reduction through unaffordable rates."

The voices of student and education groups have also been heard. As the Education Trust and the Institute for College Access and Success has explained:

"While appearing to offer low rates for new borrowers, [H.R. 1911] does not make federal loans more affordable. In fact, it makes them much more costly for students, with variable rates on undergraduate loans that are projected to rise nearly three percentage points (to 7.36%) by the time this fall's freshmen graduate from college and make their first loan payment."

A coalition of student groups has weighed in with their opposition:

"This proposal [H.R. 1911] would lock in high revenues, and takes another $3.7 billion for further deficit reduction. We should not increase student debt to pay down the deficit."

<u>Democratic Vision for Student Loans</u>

It's in our national interest to work toward solving the $1.1 trillion student loan debt problem. Democrats on the committee believe that any student loan bill should provide a benefit to student loan borrowers in the form of lower rates and lower total debt, not make a college education more expensive. Student and education groups wrote in support of Democratic amendments and in opposition to H.R. 1911. However, Republicans unanimously voted against the amendments.

Committee Democrats believe there must be a balanced long-term solution for student loan interest rates and student loan debt. There are many options Congress could, and should, consider in order to promote an affordable and accessible education. A balanced solution should take time to consider all borrowers and the obstacles each face before college, in college and after college repaying their loans. This process will take time and can best be handled in a full reauthorization of the Higher Education Act, due to expire in two years.

Representative Courtney offered an amendment to freeze subsidized Stafford loans at 3.4% for two years. The Courtney amendment would have ensured interest rates do not double for the neediest students. By extending low rates for two years, the Committee would have time to thoroughly examine long-term solutions that can properly balance affordability, access, completion and repayment while reauthorizing the Higher Education Act.

Representative Tierney offered an amendment to set Stafford loan interest rates to the rate given to the nation's big banks for two years. The Tierney amendment would have directed the Secretary of Education to set student loan interest rates on all Stafford loans yearly to the rates given to the nation's largest banks by the Federal Reserve through the 'discount window'. Current rates provided to the largest banks are set at 0.75%. A version of this bill was introduced by Senator Elizabeth Warren (D-MA).

Regrettably, these amendments were rejected by the Committee Republicans. The current bill therefore fails a very simple test. It makes college education more expensive for American students and their families. That exacerbates a long-term problem. It is not a long-term solution.

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