Center for American Progress

{CAMPUS ★ PROGRESS}

Maryland

How Maryland Will Be Affected if Stafford Loan Interest Rates Double

June 2013

More than 7 million students and their families rely on federally subsidized Stafford loans to help pay for college. These loans are distributed by the U.S. Department of Education and currently hold an interest rate of 3.4 percent, but that rate will double if Congress fails to act by July 1, 2013. If that occurs, millions of students will see interest rates soar to 6.8 percent on the new loans they take out in the next year, causing a steep rise in their loan burden and effectively increasing the cost of obtaining a college degree.

Student debt has a rippling negative effect on the broader economy

Below is an excerpt from a recent column, "Student-Loan Debt Has a Rippling Negative Effect on the Broader Economy," by Joe Valenti, Director of Asset Building at the Center for American Progress; Sarah Edelman, Policy Analyst at the Center for American Progress; and Tobin Van Ostern, Deputy Director of Campus Progress. The authors explain how the student-debt crisis is impacting other areas of the economy, including the housing market and retirement security. They argue that certain solutions, including a refinancing program and expansion of income-based repayment options, would better equip borrowers to manage their student debt and invest in their future financial stability.

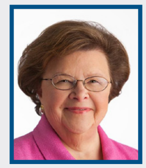
Not surprisingly, declining incomes, rising housing costs, and higher student debt are all having a ripple effect across the broader economy. First, these factors may be delaying household formation. Two million more adults ages 18 to 34 live in a household headed by their parents than before the recession, an increase from 28.2 percent in 2007 to 31 percent in 2011. Moody's Analytics estimates that each new household leads to $145,000 of economic activity, suggesting that this delay in household formation could be slowing broader economic growth.

Moreover, the delay in household formation and the financial challenges for adults in their twenties and thirties may alter the future of the U.S. housing market. The Bipartisan Policy Center estimates that Echo Boomers—those born between 1981 and 1995—will drive 75 percent to 80 percent of owner-occupied home acquisition before 2020, when

Voting record

THEN

On June 29, 2012, the Senate passed a bill with bipartisan support to keep interest rates on subsidized Stafford loans from doubling.



Barbara Mikulski (D)
YES

Ben Cardin (D)
YES

Baby Boomers begin to sell off their homes. Yet homeownership rates for young people are among the lowest in decades.

While home prices and mortgage interest rates are both at historically low levels, the tightening of credit resulting from the housing crisis poses a double obstacle to young people with significant debt. First, due to the implementation of new mortgage regulations under the Dodd-Frank Act, lenders are often requiring that homeowners have a 43 percent "back end" debt-to-income ratio to get a loan. In other words, combined monthly housing costs and monthly debt payments must not exceed 43 percent of one's monthly income in order to qualify for a loan. For those with significant student debt, this debt-to-income ratio cap may well put homeownership out of reach.

Second, even young borrowers who successfully meet debt-to-income ratios may not be able to set aside enough savings for a down payment. The Center for Responsible Lending calculates that median-income families of all ages take nearly 20 years to save enough for a 10 percent down payment and the closing costs for a moderately priced home. Younger workers may take even longer to save for a down payment, given their other immediate financial obligations, or they may simply never reach this goal.

How doubling Stafford interest rates will affect families in Maryland

Allowing the interest rate on Stafford loans to double will significantly burden those already struggling with education costs and high unemployment.

Youth unemployment rate	13.5%
High school completion rate	83%
*** College completion rate (four-year public colleges)**	62.3%
Change in higher education spending	-18.3%
College graduates with debt	55%
*** Average debt per borrower**	$28,330
Borrowers more than 90 days delinquent	12.1%
Consumers with education debt	16.7%
Number of Stafford Loan borrowers	105,027
Average savings if rate unchanged (per borrower)	$909
Total savings if rate unchanged (statewide)	$95,469,543

Young Invincibles, Department of Education Data 2012, National Center for Education Statistics Data 2010, Center on Budget and Policy Priorities Data 2013, The Project on Student Debt Data 2011, Federal Reserve Bank of New York Data 2013, Department of Education Data 2013 Data sources available at: campusprogress.org/staffordreports

*Correction, June 25, 2013: These fact sheets incorrectly labeled data as "average debt upon college graduation" and have been updated to "average debt per borrower." Additionally, the fact sheets now note that the college completion rate is for four-year public colleges.

Recent in-state press coverage

"Fidelity Investments reports that 70 percent of the Class of 2013 leaves college with on average $35,200 in debt. That's all kinds of debt, from student loans and money owed to Mom and Dad to credit card balances. And half of 2013 graduates say they are surprised how much debt they have accumulated, despite so much publicity on the subject, the Boston-based financial company said in its study released last week. The study found that 39 percent of grads — a jump of 14 percentage points over two years ago — said they might have made different decisions had they realized they would have a debt hangover."
— "Fidelity: New college grads surprised by amount of debt racked up," *Baltimore Sun, 5/20/13*

"College students taking out subsidized federal student loans will see their interest rate double in July unless Congress comes to the rescue. The rate on subsidized Stafford loans is a fixed 3.4 percent, but that's set to expire and revert to 6.8 percent for new loans issued starting in July. (Old loans stay at their current rate.) Subsidized loans, for which the government pays the interest while students are in school, are awarded to those in financial need."
— "Some college students could pay higher interest rate on federal loans," *Baltimore Sun, 4/29/13*

Endnotes

1 The White House, "Keeping Student Interest Rates Low," available at http://www.whitehouse.gov/dont-double-my-rates.

2 Timothy Dunne, "Household Formation and the Great Recession," Federal Reserve Bank of Cleveland, August 23, 2012, available at http://www.clevelandfed.org/research/Commentary/2012/2012-12.cfm.

3 Carolyn Said, "New households sign economy is resurging," San Francisco Chronicle, December 1, 2012, available at http://www.sfgate.com/news/article/New-households-sign-economy-is-resurging-4084465.php.

4 Rolf Pendall and others, "Demographic Challenges and Opportunities for U.S. Housing Markets" (Washington: Bipartisan Policy Center, 2012), available at http://bipartisanpolicy.org/library/report/demographic-challenges-and-opportunities-us-housing-markets.

5 Consumer Financial Protection Bureau, "Ability to Repay and Qualified Mortgage Standards Under the Truth in Lending Act (Regulation Z)," available at http://www.consumerfinance.gov/regulations/ability-to-repay-and-qualified-mortgage-standards-under-the-truth-in-lending-act-regulation-z/.

6 Center for Responsible Lending, "The Negative Impact of a Government-Mandated 10 Percent Down Payment for Qualified Residential Mortgages (QRMs)" (2012), available at http://www.responsiblelending.org/mortgage-lending/policy-legislation/regulators/QRM-10percent-issue-brief-Aug16-1-2.pdf.