the institute for
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STATEMENT OF LAUREN ASHER
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April 10, 2013

President's FY14 Budget Good for Current Students; Raises Rates for Future Students

Fully Funds Pell Grants and Improves Income-Based Repayment, but Removes the Cap on Federal Student Loan Interest Rates

"President Obama's fiscal year 2014 budget proposal is a mixed bag for students. The most important good news is that it fully funds Pell Grants, which help more than nine million students attend and complete college and reduce how much they need to borrow. Expanding access to work-study jobs and making the American Opportunity Tax Credit permanent will also help limit students' need to borrow. The budget improves Income-Based Repayment (IBR) for all federal loan borrowers and prevents the taxation of debt forgiven through IBR and similar repayment plans. The budget also lowers the interest rates on federal loans for all students and parents who borrow *this fall*. Unfortunately, the proposal pays for some of this good news by letting interest rates rise steeply for students and families who borrow in the coming years.

"It is imperative that student loans *remain* affordable so that students of all backgrounds can get to and through school despite rising college costs. The President's budget rightly prevents the scheduled doubling of interest rates on subsidized student loans to 6.8% on July 1 when interest rates in the economy are at historic lows. Under the President's proposal, rates on subsidized Stafford Loans will not reach 6.8% within at least the next 10 years based on CBO projections. But rates on *un*subsidized Stafford Loans will exceed their current 6.8% by 2016, then top 8% by 2018 and stay there through at least 2023. The President's proposal *eliminates the cap* on student loan interest rates, which means actual rates for all types of federal student loans could rise even higher than currently projected. Rates would be based on the 10-year Treasury note in the year the loan is issued plus a fixed margin depending on the type of loan. The rate would be fixed for the life of the loan, even if interest rates for new loans dropped significantly.

"The President's proposal to expand IBR will help make federal student loan payments more manageable for all borrowers, with a lower payment cap and shorter repayment period before any remaining debt is forgiven. Similar benefits are already available to some recent graduates through the Pay As You Earn plan, and to future borrowers in IBR starting next July. However, income-driven repayment plans are no substitute for a cap on interest rates. Even in the expanded version of IBR, interest rates can still increase the cost of loans and college. For example, with an interest rate of 8% rather than 6.8%, a single student who borrowed $20,000 and makes $30,000 a year (increasing 4% per year) would pay about $7,000 more.

"Comprehensive reform is needed to keep federal loans affordable over time, streamline the program, and better target benefits, but the President's proposal misses these marks and the House-passed FY14 Budget Resolution goes much further in the wrong direction. There is a better way forward. TICAS' recent white paper proposes changes that keep loans affordable, simplify loans, and target benefits to those with more financial need. Our proposal also includes both a universal interest rate cap and a guarantee that rates for borrowers in repayment will never be too much higher than the rates being offered to current students. As also detailed in our white paper, the benefits of the improved IBR plan should be targeted so that borrowers with very high incomes do not receive substantial forgiveness when they could well afford to pay more.

"If comprehensive loan reform cannot be enacted by July 1, we urge the Administration and Congress to work together on a temporary solution to keep student loan rates from doubling. This will give Congress and the Administration time to enact changes that make sense for both students and taxpayers as part of reauthorization of the Higher Education Act, which expires this fall."

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An independent, nonprofit organization, The Institute for College Access & Success (TICAS) works to make higher education more available and affordable for people of all backgrounds. Our Project on Student Debt works to increase public understanding of rising student debt and the implications for our families, economy, and society. For more information see www.ticas.org and www.projectonstudentdebt.org or follow us on Twitter at www.twitter.com/TICAS_org.