



Illinois

How Illinois 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

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 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 Illinois

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

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|--|---------------|
| Youth unemployment rate | 13.2% |
| High school completion rate | 72.4% |
| College completion rate | 61.3% |
| Change in higher education spending | 12.1% |
| Average debt upon college graduation | \$23,885 |
| Number of Stafford Loan borrowers | 365,416 |
| Average savings if rate unchanged (per borrower) | \$1,061 |
| Total savings if rate unchanged (statewide) | \$387,706,376 |

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 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 Illinois

If Congress allows the interest rate to double on subsidized Stafford loans, it will impact millions of families in every state, from high school graduates to student borrowers to supporting family members. Here are some of their stories:

Trisha from Evanston, Ill.

"I am a teacher and I have loan debt of \$20,000. I have a son who will be a senior next year and getting ready to go to college. I make \$50,000 as a single parent. What am I to do? Do not raise the interest rates."

Mary from St. Charles, Ill.

"I have three children in college with Stafford loans. I am paying for these loans, not my children, and my husband is 65 and I am 60. Increasing the interest rate on these loans would severely cut into our retirement money once we're retired. Please don't let them increase the interest rates!"

Recent in-state press coverage

"As Congress debates a possible cap on student loan interest, the future of student debt in the United States hangs in the balance."

— "[Preparing to face debt](#)," The Chicago Maroon, University of Chicago, 4/27/12

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:

- Anthony Alfano, DePaul University, Illinois
- Brock Gebhardt, University of Illinois at Urbana-Champaign, Illinois
- Sean Vera, Loyola University-Chicago, Illinois
- Youssef Kalad, University of Chicago, Illinois

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>