UC position on HR 1911

UC supports a transition to a variable interest rate for federal student loans, but students deserve a better deal than is proposed in HR 1911.

From the Director of UC's Federal Government Relations staff in Washington D.C., Associate Vice President Gary Falle:

In advance of the vote today on student loan interest rates, I am writing to relay the University of California's views.

Briefly, UC supports continuation of the 3.4% interest rate. We are concerned about proposals that offer a reduced rate in the short term, but will cost students more in the long run. UC believes federal student loans are a public good and that there should be some level of federal benefit for low-income undergraduate and graduate students to help assure that students from a broad range of income levels can finance their postsecondary education. In addition, a cap on interest rates is essential to any variable-rate plan, and there must be certainty in locking in interest rates, from year to year so that students and families know the terms of the loans when making decisions about higher education.

UC opposes H.R. 1911, "the Smarter Solutions for Students Act," which is being debated today. This bill would set a variable rate linked to the 10-year Treasury rate, plus 2.5% for subsidized and unsubsidized loans, and plus 4.5% for GradPLUS and PLUS. The rate would be reset every year, preventing borrowers from locking in interest rates as they are able to do now, and meaning individual students could pay different rates over time as interest rates rise and fall. The bill would set caps at 8.5% for subsidized and unsubsidized loans and 10.5% for GradPLUS and PLUS loans.

According to the Congressional Budget Office (CBO), H.R. 1911 would "save" $3.7 billion, which represents a significant loss in benefits to borrowers. In addition, the Congressional Research Service estimates the average subsidized borrower would pay more under this proposal than under current law.

In recent years, there have already been significant reductions in student financial aid—including loss of summer Pell Grants, elimination of the in-school interest subsidy for graduate students, and restrictions in eligibility for Pell and loans. Most of that savings was redirected to Pell Grant support, but student aid programs still contributed a net $4.6

billion to deficit reduction. Students should not shoulder the burden of additional deficit reduction.

CBO estimates that the federal government will save $51 billion from student loans this year. UC would support using these savings be used to lower the interest rate or restore some of the student benefits that have been lost in recent years, such as the in-school interest subsidy for low-income graduate and professional students, and forgiveness of tax liability in IBR.

UC looks forward to work with Congress to develop a solution that keeps interest rates low for student loan borrowers before July 1. UC would support an extension of the current rates for subsidized Stafford loans until the HEA reauthorization is completed, but not at the expense of other federal student aid programs.

If you have questions, please contact me.

Thank you

Gary Falle
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