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CSAC Urges Continued Lid on Loan Interest to Help 706,000 California Students

RANCHO CORDOVA, CA. The California Student Aid Commission is urging Congress and the President to take action to stop the interest rate on federal Stafford loans from doubling to 6.8% from its current 3.4% on July 1. Federal statistics indicate that 706,000 California students with 807,000 Stafford loans that total \$3.4 Billion Dollars will be impacted if the rate is allowed to rise.

In a resolution adopted April 27th, 2012, the Commission noted that college students today graduate with an average loan debt of more than \$25,000. In California, the average student borrower will have to pay more than \$1,000 extra if the interest rate increases to 6.8%--that means \$706 million more coming out of the pockets of California's students.

"The Commission was unanimous in its belief that this is the wrong time to increase the repayment burden that students face," said Executive Director Diana Fuentes-Michel. "Economists tell us the recession ended some time ago, but graduates continue to face bleak prospects in the job market – and when they can find a job, it is often outside their field and at a compensation that makes it difficult to make education loan payments."

The resolution notes that student loan default rates are rising, a strong indicator of the repayment challenge for graduates. Keeping the loan interest rate at 3.4% for the time being will "allow students and their families the opportunity to recover in tandem with the economy," the resolution concludes.

The issue has emerged at a time when there is increasing focus on the total student loan debt, which at this point exceeds both national credit card indebtedness and the amount of outstanding loans for car purchases. From 2008 to 2012, a federal law called the College Cost Reduction and Access Act (CCRAA) gradually reduced the interest rate from 6.8% to 3.4%. However, the CCRAA provision regarding Stafford loan rates sunsets on June 30th this year, automatically increasing the rate to the original 6.8% in one large jump.

“The Commission believes our mandate to broaden access to higher education makes it critical to speak out on policy issues that directly impact students,” Student Aid Commission Chair Barry Keene said. “Disadvantaged students lose out on opportunities when the high cost of tuition and overwhelming burden of loan debt discourage them from going to college. We need to use every tool possible to make college more affordable – and retaining the lower interest rate is an important tool.”

The Commission’s resolution is below:

Resolution Supporting the Maintenance of the Stafford Loan Interest Rate

WHEREAS, postsecondary educational costs have increased dramatically in the last decade putting strain on low and middle income families; and

WHEREAS, student financial aid has not kept up with college costs during the same time period; and

WHEREAS, reliance on student loans as an integral part of the student’s financial aid award package has reached an unprecedented high, with students graduating with an average loan burden of more than \$25,000; and

WHEREAS, student loan default rates have been climbing, indicating that students completing or leaving their postsecondary educational programs are struggling to repay their student loans; and

WHEREAS, the 110th Congress and President Bush recognized the strain on undergraduate students relying on federal Stafford loans and statutorily reduced interest rates incrementally from 2008 to 2012 from 6.8% to 3.4% through the College Cost Reduction and Access Act (CCRAA); and

WHEREAS, that provision of the CCRAA is due to sunset on June 30, 2012, doubling federal student loan interest rates to 6.8% in one step; and

WHEREAS, the effects of the economic recession are still being felt by student borrowers, whose job and compensation prospects remain below historical expectations for college graduates; now, therefore, be it

RESOLVED by the California Student Aid Commission that the Commission unanimously advises that Congress and the President of the United States ensure that the subsidized Stafford loan interest rate remain at 3.4% to allow students and their families the opportunity to recover in tandem with the economy.

The California Student Aid Commission is the principal state agency responsible for administering financial aid programs for students attending public and private universities, colleges, and vocational schools in California. The Commission distributed over \$1.3 billion to California’s college students during the 2010-11 academic year through its Cal Grant, specialized and loan forgiveness programs. The Commission also administers financial aid awareness and outreach programs, such as Cal-SOAP and Cash for College, in collaboration with business, private industry and community-based organizations.