RSC One-Pager: The President's Student Loan Plan

October 28, 2011

On Wednesday, October 27, 2011, President Obama announced new changes to federal student loan programs through regulatory action as part of his "We Can't Wait" initiative, declaring "until Congress does act, I will continue to do everything in my power. . . ." These changes will:

- **Provide an interest rate discount of up to 0.5% for students consolidating a privately-originated Federal Family Education Loan and government-originated Direct Loan.**
    - Daniel Indiviglio calculated that the change would save the average student under $8 a month.
    - Although all federal student loans are federally guaranteed, these consolidations could add as much as $400 billion in loans to the federal government's books.

- **Cap payments at 10% of discretionary income and reduce the time of repayment required before total loan forgiveness from 25 to 20 years for new borrowers and those who have taken out a loan since 2008 and will be taking out a new loan in 2012.**
    - These changes will benefit only 1.6 million students, or 16% of student loan recipients.
    - The current income-based repayment plan caps payments at 15% of disposable income, but is only utilized by 450,000 students.
    - By not requiring borrowers to repay according to their debt, but instead by what the federal government believes they can afford, the changes will further encourage students to disregard their total debt load and borrow heavily, leading to increased federal loan support and costs.

Without any justification, the Administration claims these changes will "carry no additional cost to taxpayers," and it provides no analysis of the plan's long-term impact. Implementing such changes through regulation also continues the Administration's disturbing trend toward action without the support of Congress. That trend is highlighted by the Administration's recent usurpation of Congress' authority to address No Child Left Behind through its planned conditions-based waivers.

These changes will also not address the higher education financing crisis. Total student loans have increased by 511% since 1999 and will exceed $1 trillion for the first time this year, surpassing total credit card debt. Excessive student loans have strongly contributed to the 368% increase in tuition and fees at public four-year institutions over the last 30 years. According to the Cato Institute, each taxpayer now pays $532 annually for federal higher education support.

Many conservatives would argue this crisis can only be addressed by a major retreat from the higher education market by the federal government. The federal government's last reform attempt, Obamacare's nationalization of the federal student loan program, provided no benefit to students and cost the private sector at least 3,500 jobs. With the federal government out of the way, market forces could return tuition costs to sustainable levels and free future students from crippling debt loads.

RSC Staff Contact: Cyrus Artz, (202) 226-0718, cyrus.artz@mail.house.gov