IDEA BRIEF

MAKING COLLEGE MORE AFFORDABLE | MAY 2009

Increase Federal Student Loan Limits

By Anne Kim, Ryan McConaghy, and Tess Stovall

Getting a college degree is more important today than it's ever been. But for many, the rising cost of college threatens to put higher education out of reach. As the price of attending college skyrockets, many students have to rely on loans to pay their way through school. Raising federal student loan limits would dramatically increase the amount of college expenses covered by federal loans and help more students attain a college degree.

THE PROBLEM

Student loan limits aren't keeping up with rising college costs

College tuitions have risen at a rate faster than inflation for each of the last 27 years. To cope with these rising costs, more students now rely on loans to pay for their education.

College costs are skyrocketing.

In the last ten years, the cost of attending a public university has risen 84%.[1] In 2008-2009, the average bill for just one year of tuition, fees, room and board at a public university was $14,333,[2] and for private schools, the annual average college bill was $34,132.[3] Among families who save for college, the median total amount saved is about $10,000—not enough for even one year's bills.[4]

More students are relying on Stafford loans than ever before, but they're not enough to cover the true cost of college.

The federal government, through the Department of Education, administers Stafford loans to undergraduate and graduate students to help cover the costs of college. Stafford loans can either be subsidized, which means that the government pays the interest that accrues on the loan during the time a student is enrolled, or unsubsidized, which means that the government does not pay the interest that accrues.[5] The use of Stafford loans by students has significantly increased in the last ten years.

During the 1997–1998 school year, 33% of undergraduates took out federal Stafford loans to help pay for college. By last year, that number had jumped to 42%.[6] But the total amount[i] students can borrow in Stafford loans each year covers approximately one-third of the cost of one year at four-year public universities and only one-sixth of the cost of a year at private schools.[7] When all expenses are added up including room and board, it's clear the current federal Stafford loan is only large enough to be one piece of a larger college financing puzzle.

College Costs Versus Federal Student Loan Limits

<table>
<tr><th rowspan="2">Type of College</th><th rowspan="2">Average Tuition and Fees (2008-2009)[8]</th><th rowspan="2">All Charges (including room and board)</th><th rowspan="2">Current Federal Stafford Loan Limit– (dependent students)[9]</th><th colspan="2">Lending Gap</th></tr>
<tr><th>Tuition Only</th><th>All Costs</th></tr>
<tr><td>Public Four-Year, In-State Students</td><td>$6,585</td><td>$14,333</td><td rowspan="5">$5,500[i]</td><td>$1,085</td><td>$8,833</td></tr>
<tr><td>Public Four-Year, Out-of-State Students</td><td>$17,452</td><td>$25,200</td><td>$11,952</td><td>$19,700</td></tr>
<tr><td>Private Colleges/ Universities</td><td>$25,143</td><td>$34,132</td><td>$19,643</td><td>$28,632</td></tr>
<tr><td>For-profit institutions</td><td>$13,046</td><td>n/a</td><td>$7,546</td><td>—</td></tr>
<tr><td>Public Two-Year</td><td>$2,402</td><td>n/a</td><td colspan="2">—</td></tr>
</table>

To cover the difference, students are turning to high-interest private loans and credit cards.

As the cost of college continues to rise well above the current maximum for federal Stafford loans, many more students than ever before are turning to credit cards and private student loans to cover the difference. In 2008, the average credit card balance for undergraduate student cardholders was $3,173, a 25% increase in four years. More than nine in ten students who use their credit cards say they've used them to pay for direct education expenses like tuition, books, and other fees.[10] Additionally, the use of private loans has tripled from the

i For Federal Stafford Loans, $5,500 is the limit for dependent students in their first year. The limits increase to $6,500 for second-year students and $7,500 for third- and fourth-year students. For independent students, the loan limits are $9,500 for the first year, $10,500 for the second year and $12,500 for third- and fourth-year students.

1997-98 school year, when private loans made up only 7% of all education loans, to 23% by the 2005-06 school year.[11]

Currently, subsidized Stafford loans have an interest rate of 6.0% while unsubsidized Stafford loans have an interest rate of 6.8%.[12] But private student loans have much higher interest rates than Stafford loans, and this can lead to students paying more than $8,300 extra in interest over the life of a $20,000 loan—a significant amount of money to a graduate just starting out and looking for a first post-college job.

The Effect of Interest Rates on the Repayment of $20,000 Loan Over 15 Years[13]

Loan Type	Interest Rate	Monthly Payment	Total Interest Paid	Interest Difference
Subsidized Stafford Loan	6.0%	$169	$10,379	—
Unsubsidized Stafford Loan	6.8%	$178	$11,956	$1,577
Private Loan[14]	10%	$215	$18,686	$8,307

THE SOLUTION

An increase of federal student loan limits

To help make college more affordable, maximum student loan limits under the federal Stafford loan program should be increased to $10,000 for dependent students. This proposal would increase the amount of Stafford loans to cover approximately two-thirds of the total costs of one year at a public four-year university, or roughly double the proportion of costs covered now. In addition, loan limits should be automatically increased annually to keep pace with tuition inflation.

The proposal would help families who have seen their college savings depleted.

Many parents are doing the right thing and saving for college so that their children don't have to rely heavily on loans. In 2008, more than 60% of parents reported they are saving for their children's future college expenses,[15] and nearly one-third are putting their money away in a state-sponsored 529 plan where the funds can be withdrawn tax-free if they are used for qualified higher education expenses.

However, the falling stock market and overall economic conditions have dealt a serious blow to parental efforts to put money aside for college costs. According to the College Savings Foundation, the total amount of assets in 529 accounts dropped over 20% from the fourth quarter of 2007 to the fourth quarter of 2008.[16] This proposal would help students whose parents have seen a large portion of college savings for their children disappear in the recent economic decline to still afford college.

The proposal would save students money.

Because this proposal would allow students to obtain a larger Stafford loan to cover more college costs at an interest rate lower than private loans provide, students will save money on their monthly loan repayments and the total amount of interest paid over the life of the loans. For a student who took out loans to pay for 100% of the costs of attending a public four-year university, this proposal would save the student nearly $6,000 over a repayment period of fifteen years[17]—money that could make a significant dent in a down payment on a home, into rainy-day savings or other expenses that recent graduates launching their careers might face.

THE ROLLOUT

Ideas for rolling out an increase to the federal student loan limits

- **Hold a press conference/speech** with a local high school senior preparing to go to college and his or her family.
- **Hold a press conference/speech** at a local college or university with current students.

CRITIQUES & RESPONSES

Increase in Federal Student Loan Limits

It's too expensive.

Very few things are more necessary in today's economy than attaining a college degree, but for many, the cost of college is putting that degree out of reach. Federal loans are a great way to help students pay for college expenses, but the student loan limits are so low that they only cover one-third of the cost of one year at a public four-year university. By increasing the amount of loans a student can take out per year through the Stafford loan program, this proposal ensures that the Stafford loan program keeps up with the true cost of attending college.

It's going to create more debt for students.

Absolutely not. Today, many students already have to take out loans to pay for college, and some of these students are forced to obtain private loans to cover the costs not covered by Stafford loans. This proposal would allow students to take out more in low interest Stafford loans rather than having to rely on higher-rate private loans to cover all of the expenses of college. In the end, students will end up saving money under this proposal.

More aid will cause college tuition to rise.

This is the reason conservatives cite for wanting to cut college aid. They can't be more wrong. The greatest college aid program in US history—the GI Bill—had no impact on tuition prices.[19] Moreover, college tuition rates have far outpaced increases in federal student loan funding.[20]

This is more big government.

The federal government already administers millions of federal student loans each year to undergraduate students.[21] Therefore this proposal doesn't create a new program or a new government bureaucracy. This proposal builds on the current government student loan structure by increasing the maximum amount students can borrow under the Stafford loan program so that more college expenses are covered and more students are able to get a college education.

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APPENDIX

Detailed comparison of current Stafford loan limits and the proposed increase in federal student loan limits

The proposal would increase the Stafford loan borrowing limit for dependent students to $10,000 per year, including an increase in the subsidized loan limit to $6,500. For independent students, the borrowing limit would increase to $14,000. In addition, Congress should direct the Secretary of Education to devise a formula to adjust the Stafford loan limit each year, or as necessary, to ensure that the loan limit covers approximately two-thirds of the average cost of one year at a public four-year university. The current Stafford loan limit is enough to cover approximately one-third of the one-year costs.

Comparison of Loan Limits for Dependent Undergraduates

Year in School	Third Way Proposed Loan Limit	Current Stafford Loan Limits[22]	Increase Under Proposal
First-Year	$10,000 (up to $6,500 subsidized)	$5,500 (up to $3,500 subsidized)	$4,500
Second-Year	$10,000 (up to $6,500 subsidized)	$6,500 (up to $4,500 subsidized)	$3,500
Third-Year	$10,000 (up to $6,500 subsidized)	$7,500 (up to $5,500 subsidized)	$2,500
Fourth-Year	$10,000 (up to $6,500 subsidized)	$7,500 (up to $5,500 subsidized)	$2,500

Comparison of Loan Limits for Independent Undergraduates

Year in School	Third Way Proposed Loan Limit	Current Stafford Loan Limits[23]	Increase Under Proposal
First-Year	$14,000 (up to $6,500 subsidized)	$9,500 (up to $3,500 subsidized)	$4,500
Second-Year	$14,000 (up to $6,500 subsidized)	$10,500 (up to $4,500 subsidized)	$3,500
Third-Year	$14,000 (up to $6,500 subsidized)	$12,500 (up to $5,500 subsidized)	$1,500
Fourth-Year	$14,000 (up to $6,500 subsidized)	$12,500 (up to $5,500 subsidized)	$1,500

ENDNOTES

1 College Board, "Trends in College Pricing, 2008," available at https://professionals.collegeboard.com/profdownload/trends-in-college-pricing-2008.pdf.

2 Ibid.

3 Ibid.

4 Investment Company Institute, "Profile of Households Saving for College," 2003, available at http://www.ici.org/pdf/rpt_03_college_saving.pdf.

5 Federal Student Aid, "Stafford Loans (FFELs and Direct Loans)," available at http://studentaid.ed.gov/PORTALSWebApp/students/english/studentloans.jsp.

6 College Board, "Trends in Student Aid, 2008," available at http://professionals.collegeboard.com/profdownload/trends-in-student-aid-2008.pdf.

7 Federal Student Aid, "Stafford Loans (FFELs and Direct Loans)," available at http://studentaid.ed.gov/PORTALSWebApp/students/english/studentloans.jsp.

8 College Board, "Trends in College Pricing, 2008," available at https://professionals.collegeboard.com/profdownload/trends-in-college-pricing-2008.pdf.

9 Federal Student Aid, "Stafford Loans (FFELs and Direct Loans)," available at http://studentaid.ed.gov/PORTALSWebApp/students/english/studentloans.jsp.

10 Sallie Mae, "How Undergraduate Students Use Credit Cards: Sallie Mae's National Study of Usage Rates and Trends, 2009," April 2009, available at http://www.salliemae.com/NR/rdonlyres/0BD600F1-9377-46EA-AB1F-6061FC763246/10744/SLMCreditCardUsageStudy41309FINAL2.pdf.

11 College Board, "Trends in Student Aid, 2008," available at http://professionals.collegeboard.com/profdownload/trends-in-student-aid-2008.pdf.

12 Federal Student Aid, "Stafford Loans (FFELs and Direct Loans)," available at http://studentaid.ed.gov/PORTALSWebApp/students/english/studentloans.jsp.

13 Calculations made using the loan calculator available at http://www.finaid.org/calculators/loanpayments.phtml.

14 The average interest rate for a private student loan from Sallie Mae is 10%. Sallie Mae originated 1.8 million student loans in 2006, second only on the U.S. government in volume. Diana Jean Schemo, "Private Loans Deepen a Crisis in Student Debt," New York Times, June 10, 2007. Sandra Block, et al., "Sallie Mae changes its student loan ways," USA Today, April 12, 2007.

15 Fidelity Investments, "Fidelity College Savings Indicator Finds Parents Are Projected to Meet Only 21 Percent of Future College Costs—Three Point Decrease from One Year Ago," News Release, October 1, 2008.

16 College Savings Foundation, "529 Assets Decline in 4Q of 2008," March 2, 2009, available at http://www.collegesavingsfoundation.org/pdf/CSFPR4Q2008FinalwCharts.pdf.

17 Third Way calculation. Based on the amount of loans (subsidized and unsubsidized Stafford loans and private loans) needed to pay for 100% of the cost of attending a public four-year university for four years under current limits and proposed limits. The total cost of attendance was increased by 4.2% each year, the average yearly increase for public four-year universities for the last ten years according to Trends in College Pricing, 2008, by the College Board.

18 U.S. Department of Education, National Center for Education Statistics, "Table 320: Average undergraduate tuition and fees and room and board rates charged for full-time students in degree-granting institutions, by type and control of institution: 1964-65 through 2006-07," available at http://nces.ed.gov/programs/digest/d07/tables/dt07_320.asp.

19 College Board, "Trends in Student Aid, 2008,"available at http://professionals.collegeboard.com/profdownload/trends-in-student-aid-2008.pdf. An undergraduate student can take out a maximum of $27,000 in federal Stafford loans over four years.

20 Ben Miller, "A Last Look at Higher Education in the Bush Years," The Higher Ed Watch Blog, New America Foundation, January 20, 2009, available at http://www.newamerica.net/blog/higher-ed-watch/2009/happy-inauguration-day-9541.

21 Federal Student Aid, "Stafford Loans (FFELs and Direct Loans)," available at http://studentaid.ed.gov/PORTALSWebApp/students/english/studentloans.jsp.

22 Ibid.