



## The Daily Dish

# Ready? Set? Student Loan Rates!

DOUGLAS HOLTZ-EAKIN | MAY 8, 2024

Today the Treasury auctions 10-year notes and, as directed by the [Bipartisan Student Loan Certainty Act of 2013](#), the interest rate on the 10-year will dictate the interest rate on this academic year's (July 1, 2024, to June 30, 2025) student loans. For each loan, the rate is the 10-year Treasury plus an add-on to reflect the inherent riskiness of student lending. Congress wanted to more heavily subsidize undergraduates, so the add-on for undergraduate Stafford Loans is 2.05 percent, 3.6 percent for graduate Stafford Loans, and 4.6 percent for Parent PLUS Loans. (Each type of loan also has a statutory maximum interest rate.)

So, it's a big day in the student loan world. The actual yield on the April 10-year auction was 4.56 percent. To get a sense of things, assume that today comes in at 4.50 percent. That would mean:

- Undergraduate Stafford: 6.55 percent;
- Graduate Stafford: 8.1 percent; and
- PLUS Loans: 9.1 percent.

Rates would be up 105 basis points and undergraduates would have a rate above 6 percent for the first time since 2008-09.

Now the story gets weird and twisted. Because of the aggressive implementation of Income-Driven Repayment (IDR) programs - culminating in the Biden giveaway known as the SAVE Plan - increasingly the repayment amount for students does not depend on the interest rate. It depends on their income for a while and then the remainder is forgiven. This is not a small phenomenon; already over one-half of loans are in IDR, the fraction is growing, and, in principle, every undergraduate and graduate loan could end up in IDR.

What that means in practice is that today's auction really matters only for PLUS loans. It is

the parents who will get stuck with higher interest rates and the bonus of being taxpayers with those student loans being forgiven. “[Won't Get Fooled Again](#)” should play continuously in every maternity ward in the land.

It turns out that - progressives' best efforts notwithstanding - the government is not the only game in town. There are private lenders and non-profit lenders in this business. So, after the auction, it might make sense to shop around.