Insight

A Legacy of Debt

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The current debate over federal student loans and how to pay the costs of keeping subsidized borrower rates at 3.4% is a reminder that federal financial aid has become a runaway entitlement, generating massive financial burdens for students and the federal government. Although the Administration and Liberals in Congress are quick to point out that they've funded massive increases in federal funding for higher education (through issuing debt to the public in the form of Treasury bonds), they are missing the larger point: college costs are exploding, and the massive influx of public debt to try and offset the cost isn't helping.

As CNN reported last year, the average undergraduate student takes on debt of over $25,000 to pay for school. And the grim reality is that college costs show no signs of slowing – the average public four-year institution increased tuition by 8.3% last year, far outpacing the rate of inflation, meaning that borrowers are likely to be worse off every year.

As the cost of college continues to surge, one would imagine that the current debate in Congress is a timely discussion over the best way to provide a substantial benefit to students. However, because of the cost of reducing borrower interest rates, Congress only cut rates to 3.4% for one year, gradually reducing the rate from 6.8% to 3.4% over 5 years before they are scheduled to bounce back up to 6.8%. So even for borrowers taking out the maximum subsidized loan amount each year of $5,500, the difference in repayment amounts between 3.4% and 6.8% interest rates for a typical 10-year term works out to be only $9.26 per month.

For such a small benefit, the cost is very high: roughly $6 billion, to keep rates on a subset of federal loans at 3.4% for only one more year.

A $6 billion price tag for such a marginal benefit is symptomatic of Congress and the Administration's focus on the wrong side of the equation. As long as college costs continue to skyrocket, no amount of tinkering with interest rates — and the billions of dollars needed to keep rates at 3.4% — will reduce the amount of money that students are borrowing.

And that's only half of the problem. As our national debt explodes at a rate that makes tuition hikes seem meager in comparison, the per capita debt load is surging higher and higher. National debt is rising by about $4 billion every day and$6 billion needed to buy lower rates for borrowers seems almost inconsequential. Especially when compared to our country's monthly loan repayment obligation of $38 billion.