THE ARIZONA REPUBLIC

A GANNETT COMPANY

R1 FRIDAY, JUNE 7, 2013

Senate fails to halt spike in student loan rates

Staff and wire reports

Two proposals to keep interest rates on federally subsidized student loans from doubling died in the U.S. Senate on Thursday, setting up the prospect that strapped college students will be paying as much as $1,000 more a year for their loans.

One of those is Arizona State University student Kristen Kraklio, who said the specter of rising interest rates on her six-figure federal student-loan debt makes it hard to look forward to graduation next year.

"Having $100,000 in debt looks like a mountain. It is a very scary thing to see and think about," said Kraklio, 21.

Interest rates on new federally subsidized Stafford loans are set to double on July 1—from 3.4 percent to 6.8 percent. The change would affect more than 7 million students across the country and several hundred thousand in Arizona.

Subsidized Stafford loans are popular with students because the government pays the interest while the student is in school. Students have to demonstrate financial need to get the loans, and there are limits on how much they can borrow in a year.

Dueling measures in the Senate would have kept interest rates on some student loans from doubling, but Republican and Democratic proposals each failed to win 60 votes needed for the measures to proceed.

That means unless lawmakers can find a rare bipartisan agreement, students are likely to face higher rates on new subsidized Stafford student loans this fall but enjoy greater certainty on the interest they will be expected to pay during the life of their loans.

"I cannot understand why we're having a problem with this," Senate Majority Leader Harry Reid told reporters after the vote.

The top Republican on the Senate education panel seemed to share that frustration. "If we can't agree on this, we can't agree on anything," said Sen. Lamar Alexander. "This is a manufactured crisis."

The failure comes just three weeks before Stafford loan interest rates increase to 2008 levels. For students who max out their loans every year, the rate shift would mean this year's loans will cost more than $1,000 more than last year's.

Democrats in the Senate unsuccessfully sought a two-year extension of the current rates while lawmakers write a comprehensive overhaul of the student-loan process.

Republicans, meanwhile, wanted to link interest rates to financial markets.

Under GOP senators' plan, interest rates would be based on the 10-year Treasury note and, once the rates were set each year, remain there until the loans were paid off.

The GOP parameters were not that different from President Barack Obama's budget proposal, which also included interest rates linked to markets, or a version House Republicans have passed through their chamber.

Obama threatened to veto House Republicans' legislation.

The chairman of the House Education and the Workforce Committee, Rep. John Kline, R- Minn., said he does not plan to revisit his legislation and that it's up to Obama to negotiate a deal or get the blame for higher rates.

"It leaves us with one body in Congress — the House — having passed legislation ... that would provide the long-term fix to the student-loan interest-rate problem," Kline told reporters.

That fact is little consolation for students already carrying debt and likely to pick up more before graduation.

Aubrey Badger, who will be a sophomore in the fall at ASU, said the cost of getting an education is overwhelming. So far, she has $55,000 in subsidized loans.

"Living on my own and finding a job that can help me pay off these loans is going to be difficult. I'm being thrown into the real world so suddenly," Badger said.

Badger, who has some financial assistance from her parents, said she doesn't feel financially savvy enough to manage debt, living expenses, housing and work after graduation.

Juggling those costs is difficult for graduates who already often forgo luxuries like going out for dinners or TV to pay down their debts.

Brandon Reeser, 30, a grad student, and his wife, who is still in college, pay about $1,500 a month for their collective school loan — more than their $1,300 mortgage payment.

Reeser said the couple has cut cable costs, club memberships and landline phone services to save cash.

To make extra money, he plans to take up soccer coaching while his wife makes and sells crafts. She plans to graduate from a master's degree program at ASU — but that's more than a year away.

Even with the rate hike, financial experts still advocate student loans as one of the most cost-efficient ways to get a college education, but caution students to think about future income.

"Individual(s) should make a sound judgment call on how much monthly payments will be and what type of salary they can expect to earn in the first few years after graduating," said C. Angus Schaal, managing director of Tandem Wealth Advisors, a Phoenix-based financial-planning firm.

"A significant mismatch in those two factors is one of the leading causes of repayment problems," Schaal said.

Despite Thursday's twin failures, lawmakers said this would not be the final word even as the clock ticks toward July 1.

"If you believe that it's appropriate for Congress to pick winners and losers, then support this bill," Sen. Richard Burr, R-N.C., said of the Democrats' unsuccessful plan.

"If you believe that that's not the congressional role and that we need a long-term, permanent, transparent, predictable solution, then vote against this bill and let's sit down between now and July 1 and write a bipartisan approach that solves this problem once and for all," he added.

Similarly, aides to Sen. Joe Manchin, D-W.Va., said he would try to find a comprehensive overhaul in the next three weeks, not the next two years.

"I would hope that they come back to us with something that is reasonable," said Reid, D-Nev.

Republic reporter Eddi Trevizo and the Associated Press contributed to this article.