CRFB Encouraged by Fiscally Responsible Student Loan Agreement
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Today, a bipartisan group of Senators reached an agreement on a permanent solution for addressing student loan interest rates. The deal, if enacted, would replace the recent doubling in subsidized loan interest rates with a new and more sustainable regime that pegs all student loans to Treasury bond rates.

Specifically, the agreement would set the interest rate for undergraduate Stafford loans at 2.05 points above the ten-year Treasury bond rate, graduate loans at 3.6 point above the ten-year rate, and GradPLUS and parent loans at 4.6 percent above the ten-year rate. Rates would be fixed for the life of the loan and capped at 8.25 percent, 9.5 percent, and 10.5 percent, respectively.

"This agreement shows that Congress really can find permanent solutions on a bipartisan basis," said Maya MacGuineas, president of the Committee for a Responsible Federal Budget. "Rather than continuing to enact costly one-year extensions of artificially low rates, this solution will allow for a permanent and fiscally responsible fix that moves away from governing by crisis."

The agreement would modestly reduce deficits by $715 million through 2023. Relative to current law, the bill would increase deficits in early years and decrease them in later years and over the long run as interest rates rise from their historically low current levels. By contrast, permanently extending the recently expired low rate would have cost about $40 billion over a decade and even more over the long run.

"The student loan agreement should serve as the model for our broader budget challenges. Instead of passing one-year patches and kicking the can further down the road, lawmakers need to work together to find solutions for the long term. Hopefully, Congress and the President will build on this experience to find agreement on a permanent solution for sequestration that puts the debt on a clear downward path relative to the economy."