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President launches plan to help post-graduate debt

By Kristine Rosette Enerio / News Editor | Posted: Thursday, October 27, 2011 12:00 am

President Barack Obama announced a series of plans yesterday at the University of Colorado Denver geared toward easing the load of student loan debt.

“I know you’re hearing stories from friends and classmates and siblings who are struggling to find work, and you’re wondering what’s in store for your future. And I know that can be scary,” he said to the crowd of college students. “This is something Michelle and I know about firsthand. I’ve been in your shoes.”

To spread knowledge about the administration’s efforts, Melody Barnes, director of the White House Domestic Policy Council, and two other federal leaders outlined plans in a White House phone conference.

The initiative accelerates plans for the “Pay As You Earn” program, which will allow borrowers to cap their monthly payments starting next year to 10 percent of their annual discretionary income — funds left after subtracting taxes and normal expenses, Barnes said.

Congress passed the original plan in 2010 and the president signed it into law in March, she said. Its benefits were not to take effect until 2014, but through an executive order Obama plans to implement it two years earlier.

“[President Obama] realizes that many students need relief much sooner than that,” Barnes said. “That’s why we’ve initiated the new ‘Pay As You Earn’ proposal that will give about 1.6 million students the ability to cap their loan payments.”

This move could reduce a borrower’s monthly payment by hundreds of dollars per month, every month, she said.

Of the 36 million borrowers, 450,000 take advantage of the current program that caps payments at 15 percent, Barnes said.

“We’re really, really hoping ... that people will sign up for this program, investigate this program and take advantage of it because it could have a significant effect on those who are trying to pay back their loans right now,” she said.

The administration will also allow the consolidation of federal student loans, so that individuals will only need to make a single payment to a single lender for their multiple loans.

About 5.8 million borrowers have both a direct loan and a federal family education loan that requires separate payments, which Barnes said makes them more likely to default.

Those who take advantage of this option, which will begin in January, will also get up to a half percent reduction in their interest rate for some of their loans, she said.

“The steps we’re taking today are not a substitute for the bold actions that we need to create jobs and grow the economy,” she said. “But they will make a difference, especially for our nation’s students and recent graduates, and we can do it at no cost to the taxpayer.”

Classifying higher education as a high priority, Barnes said the administration worked in the past to make college more affordable by making access to financial information easier and creating the American Opportunity Tax Credit in 2009.

Arne Duncan, Secretary of Education, also said there has been significant improvements made to Pell Grants, increasing the maximum grant level to \$5,550 — which amounts to \$40 billion over the next decade.

While these front-end changes help the overall affordability issue, Duncan said the president’s announcement address back-end problems.

“We’re going to put money back in your pocket, whether it’s paying rent, whether it’s buying groceries, whether it’s paying for the electric bill or whatever it might be, this is very significant,” he said.

Raj Date, special adviser to the Secretary of the Treasury on the Consumer Financial Protection Bureau, said there are also efforts from his agency to help students make wise financial choices as well.

The Consumer Financial Protection Bureau, which is less than 100 days old, was created through the Dodd-Frank Wall Street Reform and Consumer Protection Act, Date said. This is the first big initiative they have a part in implementing.

“We want to make sure that the costs and the risk of student loans are clear to students before they take on that debt,” he said.

The “Know Before You Owe” project provides students with a one-page financial aid shopping sheet, Date said.

“The prototype of this shopping sheet that we released this week makes it easier for students to compare financial aid offers side by side,” he said.

Various types of aid are explained in standard terms on the sheet, and it distinguishes between loans and scholarships, he said. It also outlines the full cost of attendance, estimates total students loan debt and the monthly payments after graduation.

The sheet is available for viewing and feedback at consumerfinance.gov, Date said.

“We need students to tell us what they think of the prototype shopping sheet so we can work with the Department of Education to make it even better,” he said.

The agency also launched an interactive web tool called the “Student Debt Repayment Assistant” so borrowers could find a way to reduce their payments, Date said.

Gerald Pomper, professor emeritus in the Department of Political Science, believes this announcement comes as no surprise considering the president is up for re-election next year.

Through this measure and other executive orders, he said Obama is trying to garner the support of young voters for November 2012.

“The youth vote was very important ... to him in 2008, so he’s trying to strengthen and recreate that coalition,” said Pomper, who specializes in national elections.

John Weingart, Eagleton Institute of Politics associate director, said the president pulled a similar move earlier this week when he used his executive powers to increase aid to those struggling to pay their mortgage.

“He issued an executive order to ... accomplish what you can under existing law,” Weingart said. “I think we probably will see more action like this between now and next November.”

Because of opposition in Congress and the state of the economy, Weingart said. Obama is still trying to implement a number of plans he hoped to already accomplish.

But Pomper said this strategy was not uncommon and past presidents took the same avenues of action.

“They’ve all tried to bolster the economy at the time of the election. It’s a political economic cycle,” he said.

Barnes said getting a post-secondary education is important to economic security.

“We have to educate our way to a better economy and have to continue to make sure colleges are accessible and affordable,” Duncan said.

He said Americans are competing in a global market place where employers can go anywhere in the world to find knowledgeable workers.

“The only way we’re going to win that competition is to significantly increase not just college going rates, but college graduation rates,” he said.

A generation ago, the United States led the world in college graduates, Duncan said. The county is now ranked No. 16 in the world.

“It’s just that we’ve stagnated ... other countries have taken this much more seriously,” he said.