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1111 Franklin Street
Oakland, CA 94607-5200
Phone: (510) 987-9074
Fax: (510) 987-9086
http://www.ucop.edu

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TO MEMBERS OF THE CALIFORNIA DELEGATION

College students across the country will soon face a significant rise in the interest rate on new subsidized Stafford student loans for next year. The University of California (UC) urges Congress to reach an agreement that keeps interest rates low for student loan borrowers before the rates rise from 3.4 percent to 6.8 percent on July 1. UC supports extension of the current rate of 3.4 percent until Congress is able to negotiate and enact sensible, long-term student loan reforms as part of the Higher Education Act reauthorization.

UC is greatly concerned that an uncertain fiscal future for federal financial aid programs is a significant issue for students and parents who are making difficult and critical decisions about higher education. Students and parents need to know that there is strong and sustained financial aid from year-to-year for their entire academic future, and to know what their total cost of borrowing will be over the term of their student loans.

In 2011-12, 77,916 UC undergraduates borrowed $337.6 million in subsidized Stafford student loans. Assuming that each of these students were to borrow at the maximum allowable annual amount during the typical time to degree, they would see an increase of $4,458.71 in additional interest over the ten-year term of repayment if rates were to double on July 1.

There are a number of proposals pending that would link student loan interest rates to market rates. In considering such proposals, UC urges that the market interest rate for any particular year be fixed for the life of the loan, and that there be a cap on interest rates to provide students fiscal protection from future high interest rate environments.

In recent years, there have been significant reductions in student financial aid—including loss of summer Pell Grants, elimination of the in-school interest subsidy for graduate students, elimination of the grace period interest subsidy for all borrowers, and increased restrictions in eligibility for Pell and loans. Much of that savings was redirected to Pell Grant support, but federal student aid programs still contributed a net $4.6 billion to deficit reduction. Low-income students should not shoulder the burden of additional deficit reduction.

Thank you for your ongoing support of the University of California.

With best wishes, I am,

Sincerely yours,

Mark G. Yudof
President

cc: Provost Dorr
Executive Vice President Brostrom
Senior Vice President Dooley
Vice President Sakaki
Vice President Lenz
Associate Vice President Falle