

Fitch: U.S. Student Loan Rate Hikes Tests College Affordability

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Recent interest rate increases on federal student loans may be a credit negative as they could draw further public scrutiny of college affordability and impose additional downward pressure on tuition-setting flexibility. However, rate hikes are unlikely to materially influence undergraduate student demand at most institutions in academic year 2014-2015, although the impact on graduate enrollment remains unclear.

We do not expect the increase in rates to materially influence undergraduate student demand at most institutions in academic year 2014-2015, as students have already committed to the fall semester. The impact on graduate enrollment, a student body that relies more heavily on federal loans, could be negative but is somewhat less clear, as many programs have rolling admissions policies and therefore less specific admissions deadlines.

Fitch believes rising rates may draw more scrutiny of college affordability. According to the College Board's 2013 Trends in College Pricing, four-year private nonprofit colleges and universities raised tuition an average of 3.8% for the 2013-2014 academic year, compared to 4.2% for the 2012-2013 academic year and 4.5% the academic year prior. Four-year public colleges and universities raised in-state tuition an average of 2.9% compared to 4.5% and 8.5% for academic years 2012-2013 and 2011-2012, respectively.

Tempered increases in student charges could negatively impact net tuition and fee revenue, which is already been pressured by increasing budget support for financial aid at many non-profit private colleges and universities. Additional information on increased financial aid can be found in Fitch's recent commentary, "Fitch: Increased Discounting Dims Revenue Growth Prospects at Some Private Colleges & Universities."

Interest rates on federal loans for academic year 2014-2015 increased effective July 1. Undergraduate Stafford loan rates rose to 4.66%, up from 3.86%. Rates on Stafford loans for graduate students are up to 6.21% from 5.41% last year. PLUS loans, for graduate students and parents of undergraduates, rose to 7.21% from 6.41%.

The recent student loan rate increases stem from a resolution reached last year that tied interest rates on government-sponsored loans to the 10-year U.S. Treasury note plus a

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flat rate, depending on the type of loan. The rates are locked through the life on the loan and are capped. Undergraduate Stafford loans are capped at 8.25%, graduate Stafford loans at 9.50%, and PLUS loans at 10.50%.

Additional information is available on www.fitchratings.com.

The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article, which may include hyperlinks to companies and current ratings, can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

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