American Psychological Association Services, Inc.

For additional information, contact:
Kenneth Polishchuk
202-336-5945
kpolishchuk@apa.org

UPDATED: APRIL 2021

# Student Loan Interest: The Hidden Cost of Federal Borrowing

Nearly all graduate psychology students, both those studying to be clinical psychologists and behavioral health researchers, are impacted by student loan debt. This influences their life choices and milestones, including whether or when to start a family or purchase a home. It also impacts career choice, potentially decreasing the likelihood of qualified professionals pursuing careers in critical sectors, such as public service and in underserved communities,[i] where demand is expected to grow due to COVID-19.

With a doctoral degree being a prerequisite in most states to qualify for licensure upon entry into the field, psychologists graduate with an average debt load between $75,000 and $160,000—from their graduate degree alone—and nearly half of PhD-level psychologists rely on loans to pay for graduate school, which takes on average 5-6 years to complete.[ii] At the same time, the median salary for early career psychologists is $60,000 annually.[iii] As with student debt across all degree fields, psychologists of color tend to carry disproportionate balances as compared to their white peers,[iv] which further amplifies the racial wealth gap.[v]

## Interest Makes Federal Borrowing 'Costlier' for Graduate Students

The federal government has taken a series of actions in recent years related to student loans that have disproportionately impacted graduate students, including the imposition of higher interest rates and multiple loan origination fees, as well as the elimination of subsidized federal loans. Without access to subsidized loans, graduate students begin accruing interest immediately upon disbursement of the loan. These interest rates are fixed, and since at least 2006, the median interest rates for unsubsidized loans and Grad PLUS loans have been 6.04 percent and 7.04 percent, respectively.[vi] Furthermore, any unpaid interest is compounded and added to the principal balance of the loan. These factors add to the cost of federal borrowing, particularly when financing graduate education, further increasing the overall student debt burden.

Since spring of 2020, interest rates across various sectors of the economy have been at historic lows due to the economic downturn resulting from the COVID-19 pandemic. During this time, loan holders with mortgages, auto loans, or other types of debt have been able to seek relief by refinancing at lower rates. Student loan borrowers, however, have not been extended similar opportunities. This includes many borrowers who received their degrees a decade or more ago and remain locked into fixed rates of seven percent or higher.

While graduate students do have higher student loan balances as compared to undergraduate students, they also have few federal options available to them other than to borrow. With national economic leaders indicating that interest rates are likely to remain at these low levels through at least 2023,[vii] now is the time to reform federal policies on student loan interest rates and fees, which Congress has the sole ability to do. This would go a long way to helping decrease the burden of student loan debt.

## Policy Recommendations

- **Lower or Eliminate Interest Rates on Federal Student Loans.** Interest rates should be eliminated or lowered and fixed for all federal student loans—Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans.

- **Allow for Refinancing Options on Federal and Private Student Loans.** All federal and private student loan borrowers should be allowed to refinance their loans to a new lower, fixed interest rate. This must maintain current federal benefits and protections—including access to deferment and forbearance options and the ability to enroll in repayment and forgiveness programs—for federal student loan borrowers and extend them to those with private student loans.

- **Reinstate the Federal Direct Subsidized Loan Program for Graduate Students.** Without access to subsidized loans, graduate students begin paying interest as soon as their loan is disbursed. Restoring the in-school interest subsidy for graduate students would alleviate a portion of the financial burden associated with financing a graduate degree, including in psychology.

- **Eliminate Origination Fees on Federal Student Loans.** Origination fees are hidden, duplicative fees all federal student loan borrowers pay. Eliminating them would simplify the federal student loan system and increase the affordability of higher education, particularly for graduate students, who pay multiple origination fees, on which interest begins accruing immediately upon disbursement of the loan.

---

i. Choi, Y. (2014). Debt and college students' life transitions: The effect of educational debt on career choice in America. Journal of Student Financial Aid, 44(1), 3. Retrieved from: https://pdfs.semanticscholar.org/27eb/2e3129a80c8f1d31281bbb50dc7e5b16d015.pdf.

ii. Doran, J., Kraha, A., Marks, L., Ameen, E. and El-Ghoroury, N., (2016). Graduate Debt in Psychology: A Quantitative Analysis. Training and Education in Professional Psychology, 2016, Vol. 10, No. 1, 3-13.

iii. Ibid.

iv. Wilcox, M. M., Barbaro-Kukade, L., Pietrantonio, K. R., Franks, D. N., & Davis, B. L. (2021). It takes money to make money: Inequity in psychology graduate student borrowing and financial stressors. Training and Education in Professional Psychology, 15(1), 2–17. https://doi.org/10.1037/tep0000294.

v. Sullivan, L., Meschede, T., Shapiro, T., and Escobar, F. (2019). Stalling Dreams: How Student Debt is Disrupting Life Chances and Widening the Racial Wealth Gap. Institute on Assets and Social Policy (IASP), Heller School for Social Policy and Management, Brandeis University. Retrieved from: https://heller.brandeis.edu/iere/pdfs/racial-wealth-equity/racial-wealth-gap/stallingdreams-how-student-debt-is-disrupting-lifechances.pdf.

vi. U.S. Department of Education. Federal Student Aid. Federal Interest Rates and Fees. Retrieved from: https://studentaid.gov/understand-aid/types/loans/interest-rates.

vii. Kiernan, P. (2021, March 17). Fed Holds Steady on Interest Rates, Bond Purchases. The Wall Street Journal. Retrieved from: https://www.wsj.com/articles/federal-reserve-interest-rates-bond-purchases-march-2021-11615917632.