

Comprehensive Student Loan Protection Act (Coburn, Burr, Alexander)

The *Comprehensive Student Loan Act* provides a long-term solution for students, parents, and taxpayers for student loan interest rates.

What Does This Bill Do?

- Pegs fixed interest rates on all newly-issued federal student loans – Subsidized and Unsubsidized Stafford, Graduate, and Parent PLUS – to U.S. Treasury 10-year borrowing rates; and
- Provides a 3% markup to partially offset the costs associated with defaults, collections, delinquencies, deferments, forgiveness, and other market uncertainties.

Short Term Challenges to Student Loans

- On July 1, 2013 the rate on newly-issued subsidized Stafford loans to undergraduate students is set to double from 3.4 to 6.8%.
- The College Cost Reduction and Access Act of 2007 temporarily lowered subsidized Stafford interest rates each year over 4 years.
- In 2012, Congress passed a 1-year extension of 3.4% interest rates at a cost of nearly \$6 billion, while providing minimal long-term benefits to students.

Long Term Challenges to Student Loans

- Congress set the current fixed rates on student loans into law in 2002 based on projections of what the average variable interest rates would be in the future.
- The current fixed interest rate on most newly-issued loans is 6.8% (unsubsidized Stafford loans) and 7.9% (PLUS loans).
- These rates are not pegged to a market benchmark – they apply to loans issued every year no matter where the market and economic forces push interest rates.
- These fixed rates result in overcharging students who take out loans in relatively weak economies while overly subsidizing students who take out loans in stronger economies.

How Does This Proposal Save Money for Students and Protect Taxpayers?

- Lowers the interest rate this coming school year for newly-issued loans (based on the April 5, 2013 borrowing rate of 1.72%) to a fixed rate of 4.72% *for all student loans*.
- Changes the structure of interest rates on federal student and parent loans so that they are similar to 15-year and 30-year fixed home mortgages. As a result, the rates that borrowers are charged depend on financial market conditions and the support for long-term U.S. borrowing rates.
- Ensures that taxpayers do not provide artificially low rates and unnecessarily high subsidies on student loans when the economy is strong. When rates are low, as they are today, borrowers will receive low rates, and as the economy improves, rates on new loans will rise to reflect higher borrowing costs throughout the economy.
- According to the Congressional Budget Office (CBO), saves over \$21 billion over ten years.

What Happens When Interest Rates Rise?

- Student loan interest rates, like interest rates on mortgages and other loans, can rise and fall based upon market conditions.
- Unlike other loans, however, students have the protection of a generous repayment and forgiveness program – the Income-Based Repayment (IBR) program.
- In testimony before the House Education and Workforce Committee, New America Foundation's Jason Delisle gave evidence that regardless of how high or low a student's interest rate might be when originated, repayment under IBR is nearly identical in low, manageable monthly payments.

If you have any questions, please contact Christopher Toppings in Senator Burr's office (x____), Sean Casey in Senator Coburn's office (x____), or Peter Oppenheim in Senator Alexander's office (x 4-8484)