Bank on Students Emergency Loan Refinancing Act – Fact Sheet

Student loan debt is exploding, creating a crisis that threatens our economy. Outstanding student loans now total more than $1.3 trillion, surpassing total credit card debt.[i] Each year, students are taking on more and more debt. An astonishing 71% of college seniors graduated with debt in 2012, with an average outstanding balance of $29,400 for those who borrowed to get a bachelor's degree.[ii]

Federal watchdog agencies are sounding the alarm. Key federal agencies like the Federal Reserve, the Treasury Department, and the Consumer Financial Protection Bureau have weighed in on the dangers of exploding student debt. This debt is stopping a growing proportion of families from buying homes, saving for retirement, starting small businesses, and making purchases that will keep our economy on the road to recovery.[iii]

Young borrowers are failing to keep up with payments. One in seven borrowers defaults on federal student loans within three years of beginning repayment, and according to a recent analysis, a quarter of borrowers default over the life of their loans[iv] Other borrowers are just barely keeping their heads above water – in total, almost 30% of Federal Direct student loan dollars are in default, forbearance, or deferment.[v]

With borrowers struggling, the federal government is reaping profits from old student loans. Old loans are locked into high interest rates by Congress, and a recent GAO report concludes that according to official estimates, the federal government is projected to make $66 billion on student loans issued during 2007-2012.[vi]

In 2013, large bipartisan majorities – including nearly every Republican in Congress - agreed that federal loan rates were far too high and voted to lower them this year for new borrowers – but did nothing for existing borrowers. House Speaker John Boehner (R-OH) hailed last year's agreement as a "market-based solution" that was "consistent" with Republican policy proposals. Senator Burr (R-NC) said the new rate legislation "ensures access and affordability for students."

With interest rates near historic lows, homeowners, businesses, and even local governments with good credit regularly refinance their debts – but students have few options. Even though the federal government is by far the biggest student lender, it offers no refinancing option. Private refinancing options are extremely limited, and federal borrowers cannot participate without sacrificing key consumer protections on federal student loans.

Refinancing will reduce the profits in the system and give a much-needed break to young people struggling to build a future. The Department of Education estimates that about 25 million borrowers would be likely to refinance under this legislation. Borrowers would receive an average savings of $2,000 over the life of the loan.

This legislation would give student loan borrowers a chance to refinance their debt at the same low rates offered to new borrowers in the student loan program:

- **Allows eligible student loan borrowers to refinance their federal loans.** All eligible federal FFELP and Direct student loan borrowers could refinance their high-interest loans down to the rates offered to new federal borrowers in the 2013-2014 school year under the Bipartisan Student Loan Certainty Act.

- **Allows eligible student loan borrowers to refinance their private loans into the federal program.** The bill provides those who are in good standing the option of refinancing their high-interest private student loans down to the rates offered to new federal student loan borrowers in the 2013-2014 school year. Those who refinance will also have access to the benefits and protections of the federal student loan program. Participation is fully voluntary.

- **Eliminates tax loopholes for millionaires and billionaires.** The cost of refinancing is offset by implementing the Buffett rule, which ensures that millionaires and billionaires pay their fair share in taxes.

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[i] Board of Governors of the Federal Reserve System (2015). Available at http://www.federalreserve.gov/releases/g19/current/

[ii] The Institute for College Access and Success (2013). *Student Debt and the Class of 2012*, available at http://projectonstudentdebt.org/files/pub/classof2012.pdf

[iii] Consumer Financial Protection Bureau (2013). "Student Debt Domino Effect?" available at http://www.consumerfinance.gov/newsroom/student-debt-domino-effect/; Brown, M. & Caldwell, S. (2013). "Young Student Loan Borrowers Retreat from Housing and Auto Markets," available at http://libertystreeteconomics.newyorkfed.org/2013/04/young-student-loan-borrowers-retreat-from-housing-and-auto-markets.html#.U2Ghrl4_pl0

[iv] Department of Education (2014). "Three Year Official Cohort Default Rates for Schools," available at http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html; Federal Reserve Bank of New York (2015). "Looking at Student Loan Defaults through a Larger Window," available at http://libertystreeteconomics.newyorkfed.org/2015/02/looking_at_student_loan_defaults_through_a_larger_window.html#.VQbtGUaMU3s

[v] Data from Federal Student Aid's Direct Loan and FFELP Portfolio by Loan Status, available at http://studentaid.ed.gov/about/data-center/student/portfolio

[vi] U.S. Government Accountability Office (2014). *Borrower Interest Rates Cannot Be Set in Advance to Precisely and Consistently Balance Federal Revenues and Costs*, available at http://www.gao.gov/assets/670/660548.pdf