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Lawmakers Unveil Long-Term Fix to Help Keep Student Loans Affordable

New legislation would cap interest rates & base them on actual costs of operating student loan programs

The federal government provides student loans to increase the number of Americans who attain college degrees -- not to generate revenue. CBO also notes that the federal government is generating a profit on its student loan programs with the current interest rate structure for federally subsidized Stafford loans.

"Student loans are about helping middle-class kids get the education they need. They shouldn't see their rates skyrocket. The Responsible Student Loan Solutions Act is a fiscally-responsible, common sense approach to making our financial aid system more effective, affordable, and sustainable in the long run. The Student loan interest rate offered by the government shouldn't be needlessly high, it should be based on actual costs," said **Senator Reed**, who has also introduced legislation in the Senate to extend the low-interest rate for federal student loans and lock it in for two years while a long-term solution can be crafted. "Some who claim it is important to avoid burdening our children and grandchildren with national debt are all too willing to bury these young people in student debt."

"Higher education is not a luxury: it is part of the American dream that every hard working and responsible student should be able to afford," said **Senator Durbin.** "When interest rates double at the end of June, the cost of going to college will go up for more than three hundred thousand borrowers in my home state of Illinois. While we have been dealing with the mortgage crisis over the last few years, Congress has all but ignored the millions of young adults who are signing away their income for decades just to get an education. Until that debt is paid off, most can't even dream of owning a home. It's time we focus on them. The Responsible Student Loan Solutions Act of 2013 will bring some common sense to the federal student loan program and help make certain that we have the young, educated workforce that is essential to our economy."

"There is something glaringly unjust when Wall Street banks whose reckless behavior nearly brought this country's financial system to ruin can access 'easy' or 'cheap' money while students and families have to pay steep interest rates in order to pursue the American Dream. Our political rhetoric speaks to the need for college graduates, and our policy actions must follow suit. The Responsible Student Loan Solutions Act is a pragmatic, long-term approach to reforming federal student loan programs that will help new borrowers as well as the estimated 37 million Americans with existing student loan debt. This bill is a desperately needed solution," said **Congressman Tierney**, the lead author of the legislation in the U.S. House of Representatives.

"Even as the national unemployment rate dips, the employment gap between people with a college degree and

people without remains a persistent, glaring problem," said **Congressman Courtney**. "A college education is critical for success in today's economy, but the cost of higher education and the long-term impact of student loan debt are now derailing dreams of homeownership and affecting decisions like whether to get married or have children. Without question, we have a crisis on our hands with student loan debt. Our immediate attention should be on defusing the July 1 trigger that would double the interest rate on subsidized Stafford student loans. Once that hurdle is cleared, this legislation—a long-term solution to reducing student loan debt—must be front and center."

The rising tide of total student debt, which has crested above $1 trillion for the first time in our nation's history, has passed credit cards and auto loans to become the second-largest type of consumer debt behind mortgages. Research by FICO Labs found that in 2005 the average student loan debt was just over $17,000. In 2012 it rose above $27,250 – a 58% increase in just seven years.

The lawmakers noted that high student loan interest rates create a drag on our economy. As student loan debt has risen, home ownership and car ownership have declined for young households. Keeping the cost of borrowing low will help reduce the amount students owe and help give them purchasing power that can improve our overall economy.

Rates on federal Stafford loans are set to double on July 1, 2013 unless Congress takes action. However, Congress is not expected to begin consideration of the reauthorization of the Higher Education Act, the primary law governing federal investment in higher education, until after the "doubling" deadline.

Several Congressional Republicans have proposed tying student loan rates to Treasury notes plus 3 percent with no protection for students if interest rates rise. While that approach may result in a lower rate today, a look back at recent history shows students in the class of 2007 would have paid almost 8 percent and students in 1981 would have paid nearly 17 percent. Based on CBO projections the rate will be above 8 percent by 2018.

Reed, Durbin, Tierney and Courtney believe capping rates to protect students during periods of high interest rates should be part of the solution, along with allowing those on a fixed rate to refinance to a lower variable rate.

SUMMARY: Responsible Student Loan Solutions Act of 2013

The federal government provides subsidized student loans to increase the number of Americans who can attain college degrees -- not to generate revenue. Instead of setting a numerical rate in law, the Responsible Student Loan Solutions Act will set interest rates based on the actual costs of operating the student loan programs.

The Responsible Student Loan Solutions Act will help strengthen the economy, protect taxpayers, and ease the burden of student debt on families by:

Offering adjustable rate loans for student and parents with a cap on the maximum interest rate that could be charged to protect borrowers during periods of high interest rates. Interest rates for need-based, subsidized loans will be capped at 6.8 percent. Rates for unsubsidized and parent loans will be capped at 8.25 percent.

Setting the annual rate based on the 91-day Treasury bill, plus a percentage determined by the Secretary of Education to cover program administration and borrower benefits. The Secretary must set the rate so that the student loan programs are revenue neutral.

Correcting an inequity for undergraduate students who qualify for subsidized loans. Currently, a dependent undergraduate student can borrow up to $31,000 total. However, the maximum amount that can be subsidized is $23,000, which means that needy students often have to resort to more expensive unsubsidized loans to finance a part or the remainder of their education costs. The bill allows borrowers with financial need to have up to the full loan limit in the lower cost program.

Allowing borrowers who are stuck with high fixed-rate federal student loans to refinance those loans into the new variable rate loan with a cap. Unsubsidized loans currently carry at 6.8 percent fixed rate. PLUS loans made under the old bank-based program carry a rate fixed of 8.5 percent. PLUS loans made through the Federal Direct Loan program carry a fixed rate of 7.9 percent.

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