

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 \$1.4 trillion, surpassing total credit card debt.ⁱ Each year, students are taking on more and more debt. An astonishing nearly 70% of college seniors graduated with debt in 2015, with an average outstanding balance of more than \$30,000 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

Borrowers are failing to keep up with payments. More than one in four borrowers are in delinquency or in default on their student loans, and around 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 recent Congressional Budget Office estimates indicate that the federal government will make \$81 billion off of student loans over the next decade.^{vi}

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 has estimated that around 25 million borrowers would be likely to refinance under this legislation. Borrowers would receive an estimated average savings of \$2,000 over the life of the loan.^{vii}

Legislation allowing student loan refinancing has attracted the support of a large and diverse coalition. 35 Senators joined Senator Warren in cosponsoring this bill in the 114th Congress, and 182 members of the House of Representatives, led by Congressman Joe Courtney (CT-2), sponsored a companion version of the bill. Dozens of advocacy groups endorsed the bill, including the National Education Association, the AFL-CIO, the National Association of Realtors, the American Federation of Teachers, Center for Responsible Lending, the Service Employees International Union, Young Invincibles, League of United Latin American Citizens, and the American Association of University Professors.

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 currently offered to new federal borrowers.
- **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 2016-2017 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 Federal Reserve Bank of St. Louis (2017). Available at <https://fred.stlouisfed.org/series/SLOAS>
- ⁱⁱ The Institute for College Access and Success (2013). *Student Debt and the Class of 2015*, available at http://ticas.org/sites/default/files/pub_files/classof2015.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>
- ^{iv} Consumer Financial Protection Bureau (2016). “Annual report of the CFPB Student Loan Ombudsman,” available at http://files.consumerfinance.gov/f/documents/102016_cfpb_Transmittal_DFA_1035_Student_Loan_Ombudsman_Report.pdf ; 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} The Institute for College Access & Success (2016). *What no one noticed about CBO’s recent projection: \$81 billion in student loan profits*, available at <http://ticas.org/blog/what-no-one-noticed-about-cbos-recent-projection-81-billion-student-loan-profits>
- ^{vii} The Domestic Policy Council & The Council of Economic Advisers (2014). *Taking Action: Higher Education and Student Debt*, available at: https://obamawhitehouse.archives.gov/sites/default/files/docs/student_debt_report_final.pdf