BILL SUMMARY
EDUCATION & THE WORKFORCE COMMITTEE

H.R. 1911, The Smarter Solutions for Students Act

In 2006, Democrats made a series of campaign promises to the American people, including a pledge to make college "affordable and accessible to all" by reducing student loan interest rates across the board. After gaining control of Congress in 2007, they realized that their political promise was too expensive, so they championed legislation to *temporarily* phase down interest rates on new subsidized Stafford loans to undergraduate students from 6.8 percent to 3.4 percent over four years.

Instead of working with Republicans on responsible solutions to help make higher education more affordable for students in the long-run, the Democratic Congress chose to kick the can down the road. When faced with the scheduled increase in subsidized Stafford Loans last summer, Republicans agreed to support a one-year extension of the 3.4 percent interest rate with the promise that we would use that time to develop a long-term solution to the student loan interest rate problem.

It is with that promise in mind that House Committee on Education and the Workforce Chairman John Kline (R-MN) and Subcommittee on Higher Education and Workforce Training Virginia Foxx (R-NC) introduced the *Smarter Solutions for Students Act* (H.R. 1911). This commonsense legislation moves all federal student loans (except Perkins loans) to a market-based interest rate. The bill recently passed the committee with bipartisan support.

Under the legislation, student loan interest rates would reset once a year and move with the free market, much like they did from 1992 to 2006. Interest rates would be set using the following formula:

- Stafford loans (subsidized and unsubsidized): 10-year Treasury Note plus 2.5 percent, capped at 8.5 percent.
- PLUS loans (graduate and parent): 10-year Treasury Note plus 4.5 percent, capped at 10.5 percent.

Based on current forecasts, the 10-year Treasury Note is expected to be the following:

2013 – 1.9 percent	2015 – 3.2 percent	2017 – 4.9 percent
2014 – 2.5 percent	2016 – 4.1 percent	2018-2023 – 5.2 percent

According to the Congressional Budget Office (CBO), the bill will save the federal government $995 million over five years and $3.7 billion over 10 years.

The president's fiscal year 2014 budget also includes a long-term proposal to move to a market-based interest rate, signaling a growing consensus that this approach is the best solution for students, families, and taxpayers.

<u>Allows the Free Market to Set Student Loan Interest Rates and Protects Taxpayers</u>

Politicians should not be in the business of setting student loan interest rates. This is a shortsighted practice that only creates more uncertainty for borrowers and their families in the long run, leaving their interest rates subject to the whims of Washington. The *Smarter Solutions for Students Act* takes politicians out of the equation by changing the structure of all federal student and parent loans to reflect prevailing market interest rates. This reduces the volatility of subsidies paid for by taxpayers and stabilizes federal student loan programs.

<u>Helps All Students and Stops Picking Winners and Losers</u>

The *Smarter Solutions for Students Act* is a comprehensive, responsible solution that will benefit *all* students and parents borrowing Stafford and PLUS loans. Under current law, most borrowers are stuck with a high fixed interest rate set by Congress that is inconsistent with today's low interest rate environment. The legislation ensures all borrowers can take advantage of lower interest rates when available and protects borrowers against higher interest rates with a reasonable cap. Borrowers will also have the ability to take out a consolidation loan after graduation, which will allow them to lock in their interest rate for the life of the loan.

<u>Provides Certainty for College Students and Ends Election Year Games</u>

The *Smarter Solutions for Students Act* puts an end to temporary fixes and campaign promises. The legislation provides stability for low- and middle-income students working to finance their postsecondary education, and prevents future uncertainty about whether Congress is going to act in time to change the interest rate. The legislation will strengthen our nation's student loan programs and serve the best interests of both borrowers and taxpayers.

By taking the student loan interest rate problem off the table, the committee can turn its attention to the reauthorization of the *Higher Education Act* and further reassess the appropriate federal role in higher education, while exploring more effective ways to streamline and simplify federal student aid programs and discussing opportunities to reduce the regulatory burden on colleges and universities.