MIKE ROUNDS
U.S. SENATOR for SOUTH DAKOTA

AFFORDABLE FUTURE LOAN PROGRAM FREQUENTLY ASKED QUESTIONS

HISTORY

- This bill is based off of a similar and successful federal student loan program from the 60s that encouraged private lenders, such as banks and credit unions, to provide student loans. Under the Federal Family Education Loan Program (FFEL) program, the federal government guaranteed the loans, reducing the risk to lenders in case borrowers defaulted.
- Some might remember the SD Student Loan Corp - each state then had a guarantee agency that served as the last lender of resort.

PROBLEM

The current student loan system is failing middle-class families, leaving them burdened with debt and struggling to afford higher education. Despite existing federal aid, the gap between the cost of attendance and available financing continues to widen, making college increasingly unaffordable for many. This gap forces students to rely on high-interest parent-plus loans or compromise on their educational choices.

SOLUTION

The Affordable Future Loan Program Act addresses this issue by leveraging the private sector to create a new loan product that truly covers the cost of college. By guaranteeing loans made through eligible lenders and making sure no interest accrues while students are in school, this legislation provides a sustainable and affordable solution. The Affordable Future Loan Program would exist alongside the current system and would provide just another option for students who need to fill the gap between federal aid and the cost to attend most institutions. With options for manageable repayment plans and protections to encourage responsible lending, the Affordable Future Loan Program offers a lifeline to middle-class households, making sure that higher education remains within reach for all Americans.

STATUS QUO

Since July 1, 2010, all new federal student loans have been made through the William D. Ford Federal Direct Loan Program, where the U.S. Department of Education serves as the lender.

- Private lenders are able to offer loans for education as well, but they are on their own as far as guarantees.

You must submit a Free Application for Federal Student Aid, known as the FAFSA, to access them. Most federal student loans, with the exception of PLUS loans, do not require a credit check.

There are 4 types: Direct subsidized loans (interest doesn't accrue while you're in school), direct unsubsidized loans (interest accrues during all periods), direct PLUS loans (available to graduate and professional students and parents of dependent undergraduate students to cover costs that other financial aid doesn't), and direct consolidation loans which lets you combine multiple federal student loans into one loan.

- Congress sets federal student loan interest rates, here's what they are at now:
- Undergraduate: 6.53% for Direct Subsidized and Direct Unsubsidized Loans
- Graduate or professional: 8.08% for Direct Unsubsidized Loans and 9.08% for Direct PLUS Loans

It will cost $34 billion over the next 10 years to simply administer the program. However, taxpayers will pay an additional $221 billion from expected losses on the $1.1 trillion in student loans that the federal government will issue between 2024 and 2034.

With "loan forgiveness", the United States taxpayers have spent $144 billion in the past 4 years.

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ROUNDS' PROGRAM FUNCTIONS

In Senator Rounds' bill, students would be able to get their federal loan from a private bank. Here's how it would work:

- Student loans are issued through private financial institutions.
- Loans would be guaranteed 98% by the Federal government when a student attends an accredited institution.
- Amount available would be equal to average cost to attend a public university, plus room and board: $19,000 per year adjusted yearly for inflation.
- Students do not have interest accrue while they are in school.
- Borrowers are responsible for an origination fee of 1% of the loan.
- Two repayment options: 15-year installment plan with no penalties for paying early (15 years w 72k in debt is an estimated $650+|- payment per month) OR income driven repayment with annual repayment at 15 percent of discretionary that is less than $25,000, plus 20 percent of any remaining discretionary income (adjusted every year).
- The borrower interest rate is based on the 10-year Treasury note plus 100 basis points for borrowers who are in school (which is paid by the federal government); and the 10-year Treasury note plus 200 basis points for borrowers who are in repayment.
- The maximum interest rate that may apply is capped at 6.28%.
- Today, that would be 5.23% while students are in school and 6.23% for a student in repayment since a 10-year treasury yield is 4.238%.
- It's important to note we are currently in a high interest rate environment and this will likely go down.

This program would allow financial institutions to sell loans to the secondary market, acting to reinvigorate that market. While we don't have an estimate on how much the cost of the Affordable Future Loan Program will be, the costliest provision would be due to the fact that most of this cost comes from buying the interest while students are in school and also some projection of loan guarantee losses. It will still be significantly cheaper than the cost of the current federal program.

Important to note that this is NOT a mandatory program, these loans would work alongside the current programs and would not alter them. If a student goes into bankruptcy, the government would make the financial institution whole up to the guarantee amount and take on the role of recovering funds. Under U.S. bankruptcy law, student loans are typically not dischargeable. This would eliminate the need to fill out FASFA every year - Students would instead work with financial institutions to apply for their loans. The only requirements for this loan are to attend an accredited institution including trade schools and to complete your degree within five years (both full and part time students). Students also aren't required to keep a certain GPA while in school. However, if they drop out, the government would step in by buying the loan from the financial institution and take responsibility for recover funds.

Student loan money can be used to cover a variety of educational expenses, which are broadly categorized as "cost of attendance" (COA) expenses. These typically include:

- **Tuition and Fees**: The primary use of student loan funds is to pay for the cost of classes and any associated fees required by the educational institution.
- **Room and Board**: This includes the cost of on-campus housing and meal plans, or off-campus housing and groceries.
- **Books and Supplies**: Funds can be used to purchase textbooks, notebooks, computers, software, and other necessary academic supplies.
- **Transportation**: This includes commuting costs such as public transportation fares, gas, and vehicle maintenance if you commute to campus.
- **Personal Expenses**: Some funds can be allocated for personal expenses related to attending school, such as toiletries, laundry, and other miscellaneous living costs.
- **Miscellaneous Institutional Expenses**: This can include costs for library services, student activities, and other institutional fees.
- The amount available is designed to cover tuition and room and board.

Students enter into an agreement to pay the borrowed amount, so they can use all that is borrowed for "costs of attendance." If they'd like, they can return unused money.

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