MIKE ROUNDS
U.S. SENATOR for SOUTH DAKOTA

Fact Sheet: Affordable Future Loan Program Act
Sponsored by Senator Mike Rounds (R-S.D.)

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.

<u>How it works:</u>

- 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%.
- This would be available only to undergraduates or trade schools, not graduate students.
- Lenders would cease to be eligible if they have too many defaulted loans – which would encourage lenders to work with borrowers.