A Description of the Likely Effects of the Significant Changes to the Federal Student Loan Program Proposed by the House Committee on Education and the Workforce

The committee would end the long-standing in-school and grace period interest subsidies provided to students. In short, the committee would move all students out of the existing Stafford (subsidized) loan program and into a replacement program for the Stafford Unsubsidized loans, which likewise would be "unsubsidized." To be sure, the committee has proposed eliminating origination fees, but students would nonetheless be responsible for all of the interest due on all of their federal student loans.

The tables below show the financial impacts of the committee's proposal on several types of undergraduate students.[i] In each case it is assumed the student borrowed for each year of undergraduate study:

- Enrolled for four years and entering repayment five years after first enrolling;
- Enrolled for five years and entering repayment six years after first enrolling;
- Enrolled for four years and one year of graduate study, entering repayment six years after first enrolling;
- Enrolled for four years and two years of graduate study, entering repayment
    - seven years after first enrolling;
- Enrolled for four years and three years of graduate study, entering repayment eight years after first enrolling; and
- Enrolled for four years and four years of graduate study, entering repayment nine years after first enrolling.

The loan amounts used in this analysis are from the Education Department's 2012 National Postsecondary Student Aid Study (NPSAS). The average Stafford (subsidized) loan amounts by year in school for full-time, full-year undergraduates attending four- year colleges and universities were:

- $3,248.70 for a first-year undergraduate;
- $3,744.50 for a second-year undergraduate;
- $4,493.80 for a third-year undergraduate;
- $4,654.40 for a fourth-year undergraduate; and
- $4,605.30 for a fifth-year undergraduate.

Further, the current loan origination fee and student interest rate, 1.066 percent and 4.450 percent, respectively, were used, as was the standard ten-year, fixed payment repayment plan. Note that the committee proposal eliminates the origination fee but retains the current interest rate provision.

Consider the example of the undergraduate who was enrolled for four years, borrowed the average amounts in each of those four years, and entered repayment five years after first enrolling.

Under current law:

- The principal amount to be repaid (the entering repayment amount) is the same as the amount borrowed;
- The government pays the in-school interest ($1,685.23);
- The student pays $4,379.86 in interest during the ten-year repayment period, and
- The interest paid by the student includes the 1.066 percent origination fee.

Under the committee's proposal:

- The amount to be repaid (the entering repayment amount) would exceed the amount borrowed ($17,826.63 compared to $16,141.40) because interest would accrue during the four years the student was in school and becomes payable when the student graduates and enters repayment;
- The government would not pay any interest on behalf of the student; and
- The student would pay all of the interest due ($6,332.33) during the ten- year repayment period.

Key point:

- Overall, the student's cost of borrowing would increase by $1,952.47 or 45 percent.

Now consider the example of the undergraduate who was enrolled for four years, borrowed the average amounts in each of those four years, enrolled in a graduate program for two years, and entered repayment seven years after first enrolling as an undergraduate. (Recall that graduate students are no longer eligible for Stafford (subsidized) loans.)

Under current law:

- The principal amount to be repaid (the entering repayment amount) is the same as the amount borrowed;
- The government pays the in-school interest ($3,121.81);
- The student pays $4,379.86 in interest during the ten-year repayment period; and
- The interest paid by the student includes the 1.066 percent origination fee.

Under the committee's proposal:

- The amount to be repaid (the entering repayment amount) would exceed the amount borrowed ($19,263.21 compared to $16,141.40) because interest would accrue during the six years the student was in school and becomes payable when the student completes the two years of graduate study and enters repayment;
- The government would not pay any interest on behalf of the student; and
- The student would pay all of the interest due ($8,178.04) during the ten- year repayment period.

Key point:

- Overall, the student's cost of borrowing would increase by $3,798.18 or 87 percent.

One final note: According to the Education Department, more than 6.1 million students borrowed under the Stafford subsidized loan program last year.

American Council on Education
December 11, 2017

[i] Interest calculated according to the IRS procedures for Form 1098-E student loan interest reporting as specified in 26 CFR 1.1271 – 1.1275.

Four-year Undergraduate				
	Current Law	Committee	Deltas	
Total amount borrowed	$16,141.40	$16,141.40		
Origination fee	1.066%	0.000%		
Interest rate	4.450%	4.450%		
Entering repayment amount	$16,141.40	$17,826.63	$1,685.23	10%
Term (years)	10	10		
Payment (annual)	$2,034.92	$2,247.37	$212.45	10%
Total amount repaid	$20,349.19	$22,473.73	$2,124.54	10%
Interest (includes origination	$6,065.09	$6,332.33	$267.24	4%
Paid by government	1,685.23	0.00	(1,685.23)	-
Paid by borrower	4,379.86	6,332.33	1,952.47	45%
Five-year Undergraduate				
	Current Law	Committee	Deltas	
Total amount borrowed	$20,746.70	$20,746.70		
Origination fee	1.066%	0.000%		
Interest rate	4.450%	4.450%		
Entering repayment amount	$20,746.70	$23,355.16	$2,608.46	13%
Term (years)	10	10		
Payment (annual)	$2,615.50	$2,944.35	$328.84	13%
Total amount repaid	$26,155.02	$29,443.45	$3,288.44	13%
Interest (includes origination	$8,237.93	$8,696.75	$458.82	6%
Paid by government	2,608.46	0.00	(2,608.46)	-
Paid by borrower	5,629.48	8,696.75	3,067.28	54%
Four-year Undergraduate, One-year Graduate				
	Current Law	Committee	Deltas	
Total amount borrowed	$16,141.40	$16,141.40		
Origination fee	1.066%	0.000%		
Interest rate	4.450%	4.450%		
Entering repayment amount	$16,141.40	$18,544.92	$2,403.52	15%
Term (years)	10	10		
Payment (annual)	$2,034.92	$2,337.93	$303.01	15%
Total amount repaid	$20,349.19	$23,379.27	$3,030.08	15%
Interest (includes origination	$6,783.38	$7,237.87	$454.49	7%
Paid by government	2,403.52	0.00	(2,403.52)	-
Paid by borrower	4,379.86	7,237.87	2,858.01	65%

Four-year Undergraduate, Two-year Graduate Student				
	Current Law	Committee Proposal	Deltas	
Total amount borrowed	$16,141.4	$16,141.4		
Origination fee	1.066	0.000		
Interest rate	4.450	4.450		
Entering repayment amount	$16,141.4	$19,263.2	$3,121.8	19%
Term (years)	10	10		
Payment (annual)	$2,034.9	$2,428.4	$393.56	19%
Total amount repaid	$20,349.1	$24,284.8	$3,935.6	19%
Interest (includes origination	$7,501.6	$8,178.0	$676.37	9%
Paid by government	3,121.8	0.00	(3,121.8	-
Paid by borrower	4,379.8	8,178.0	3,798.1	87%

Four-year Undergraduate, Three-year Graduate Student				
	Current Law	Committee Proposal	Deltas	
Total amount borrowed	$16,141.4	$16,141.4		
Origination fee	1.066	0.000		
Interest rate	4.450	4.450		
Entering repayment amount	$16,141.4	$19,981.5	$3,840.1	24%
Term (years)	10	10		
Payment (annual)	$2,034.9	$2,519.0	$484.12	24%
Total amount repaid	$20,349.1	$25,190.3	$4,841.1	24%
Interest (includes origination	$8,219.9	$9,048.9	$828.98	10%
Paid by government	3,840.1	0.00	(3,840.1	-
Paid by borrower	4,379.8	9,048.9	4,669.0	107

Four-year Undergraduate, Four-year Graduate Student				
	Current Law	Committee Proposal	Deltas	
Total amount borrowed	$16,141.4	$16,141.4		
Origination fee	1.066	0.000		
Interest rate	4.450	4.450		
Entering repayment amount	$16,141.4	$20,699.8	$4,558.4	28%
Term (years)	10	10		
Payment (annual)	$2,034.9	$2,609.5	$574.67	28%
Total amount repaid	$20,349.1	$26,095.8	$5,746.7	28%
Interest (includes origination	$8,938.2	$9,954.4	$1,016.2	11%
Paid by government	4,558.4	0.00	(4,558.4	-
Paid by borrower	4,379.8	9,954.4	5,574.6	127

Two-year Undergraduate				
	Current Law	Committee Proposal	Deltas	
Total amount borrowed	$6,440.7	$6,440.7		
Origination fee	1.066	0.000		
Interest rate	4.450	4.450		
Entering repayment amount	$6,440.7	$6,860.8	$420.16	7%
Term (years)	10	10		
Payment (annual)	$811.97	$864.94	$52.97	7%
Total amount repaid	$8,119.6	$8,649.3	$529.69	7%
Interest (includes origination	$2,167.8	$2,208.6	$40.87	2%
Paid by government	420.16	0.00	(420.16	-
Paid by borrower	1,747.6	2,208.6	461.03	26%