



It's Our Interest: The Need to Reduce Student Loan Interest Rates

Anne Johnson and Tobin Van Ostern February 13, 2013

Interest rates are at historic lows and everyone—homeowners,¹ corporations,² and even state and local governments³—are refinancing their debts. Refinancing allows the borrower to replace his or her existing debt with a new loan with lower interest rates and better terms. This means that borrowers can lower their monthly payments, which frees up income for purchases and creates ripple effects throughout the entire economy. There is one critical group, however, that is getting left behind in the refinancing boom: students and families who take out loans to pay for higher education.

According to a recent Lumina Foundation poll, the majority of respondents without a certificate or degree beyond high school said that they would feel more secure in both their job and their financial future if they did have such education.⁴ Furthermore, the greater economic benefits of higher education include higher contributions to tax revenues due to higher rates of employment and wages, greater productivity, higher consumption, and reduced reliance on government financial support.⁵ And yet state governments are steadily disinvesting in public higher education.⁶ Rather than cutting their costs, colleges have responded to smaller public investments by increasing tuition,⁷ which shifts a larger percentage of the burden of college costs directly to students and families. Due to both marketing by lenders and the limitations of federal financial aid, many students have even taken on private loans, which can bear interest rates twice as high as federal loans.⁸

Student loan debt now amounts to \$1 trillion,⁹ \$864 billion of which is backed by the federal government. The majority of federally backed student debt is at an interest rate higher than 6 percent, with more than three-fourths being at an interest rate above 4 percent. These rates are double or triple the less than 2 percent¹⁰ rate of government debt. The higher disparity between these two rates has resulted in increased revenue for the federal government and can add up to tens of thousands of dollars of additional costs to the average borrower.

Unfortunately, an increasing percentage of borrowers are failing to keep up with the repayment of their loans. More than 13 percent of students whose loans came due in

2009 defaulted on that debt within three years as a result of long-term failure to make payments.¹¹ Another 26 percent of borrowers at five of the major loan-guaranty agencies became delinquent on their loans—one stop short of default.¹²

It is in the nation's best economic interest to ensure that students are able to make timely payments on their loans, and it's time for federal policymakers to take action. We should enact meaningful reforms that include an interest-rate reduction and that provide a way for private-loan borrowers to consolidate their debt into the federal student loan program or otherwise modify the terms of their loans.

Refinancing is a pragmatic solution to the problem of mounting student debt in this country. Reduced student loan costs boost the likelihood of repayment while also stimulating the economy by freeing up income that can be used and spent in other sectors of the economy. Refinancing even just those federal student loans with an interest rate above 5 percent would result in a savings of \$14 billion for individual borrowers in 2013 and pump \$21 billion into the economy in the first year alone. (see Methodology)

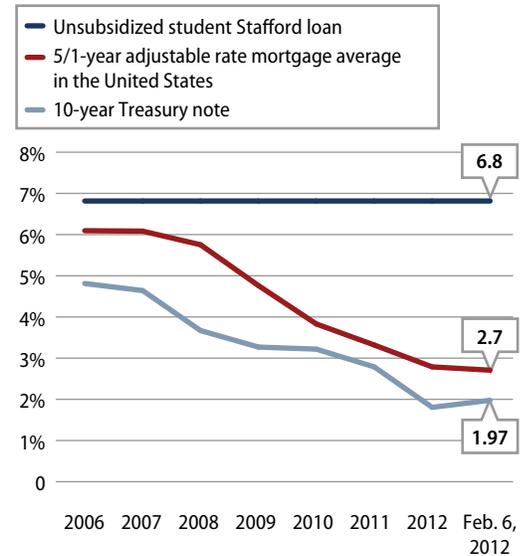
Even though interest rates on government debt are remarkably low—currently 1.97 percent¹³—interest rates on unsubsidized federal student loans are set by Congress through legislation. They remain stagnant at 6.8 percent.¹⁴

It's possible that the future will bring policies that decrease college costs and tighten government regulation of private lending. But those policies won't help recent graduates who have already assumed too much debt to pay tuitions that are too high. Lowering interest rates on existing loans would help everyone—from the borrowers to all Americans, who would benefit from a boost to the economy.

The goal of these initial American Progress-Campus Progress products will be to start the conversation about how to lower student loan interest rates. There are a variety of different mechanisms for doing so, as well as corresponding variances in size and scope of a potential program. We will continue to put out products, conduct briefings, and hold meetings to call on a variety of sectors—from nonprofit organizations and for-profit institutions to the executive branch and Congress—to submit their own plans and suggestions for refinancing student loan interest rates. The following is a brief overview of some of the issues our products will address.

FIGURE 1
Unsubsidized federal student loan interest rates remain stagnant

Interest rates for government debt, mortgages, and unsubsidized Stafford loans, 2006–2012



Sources: U.S. Department of the Treasury, Daily Treasury Yield Curve Rates (2013); U.S. Department of Education, Financial Student Aid, Interest Rates and Fees (2013); Freddie Mac, 5/1-2 Year Adjustable Rate Mortgage Average. (2013)

An opportunity for reform

From managing soaring tuition costs to streamlining federal student aid, the postsecondary education system in the United States needs reform. The current system does not work for the many Americans looking for access to and success in higher education. Middle-class families are frustrated by the increasing cost of college and the rising need to take out loans to finance a higher education. These problems need to be addressed both for future generations of Americans and for those students and families who have already been burdened with significant debt.

We must engage and provide relief to the 37 million borrowers who collectively owe more than \$1 trillion in student debt.¹⁵ These borrowers are primarily over the age of 30, and 15 percent are over age of 50.¹⁶ Engaging this group on the issue of student loan debt provides us with an opening to achieve the critical mass of public engagement that will be necessary to enact further reforms of the higher-education system and address its rising costs.

A federally backed refinancing and loan-modification program would reduce the interest rates paid by borrowers, provide new options and protections to borrowers in the private-lending sector, and stimulate the economy. It would also provide direct relief to the tens of millions of current borrowers, engaging them in the effort to improve our higher-education system.

Right now, a 10-year Treasury bond has an interest rate of 1.97 percent.¹⁷ Most borrowers, however, are locked into interest rates more than three times higher.¹⁸ The federal government is generating significant revenue from existing loans rather than passing on a portion of those record-low rates to students and their families. According to the Congressional Budget Office, federal student loan subsidy estimates for fiscal year 2013 equal \$35.5 billion in revenue.¹⁹ The same report estimates that the 2013 administrative costs for managing the loans are \$1.7 billion, which would still result in a net revenue of \$33.8 billion. The purpose of student loans should be to increase access to postsecondary education and invest in future economic growth—not to generate federal revenue.

There are a variety of ways to structure a refinance and loan-modification program that impact both scope and cost. The focus, however, should remain on easing the burden of educational debt repayment by shifting some of the billions of dollars that the government generates in revenue back to the individual borrowers.

Furthermore, lowering interest rates would reduce the amount of money borrowers spend each month on debt and would allow them to spend it elsewhere, which would help immediately stimulate the economy. Borrowers could, for example, purchase a home, a car, or products to meet their everyday needs.²⁰ Additionally, lower interest rates going forward would help alleviate Americans' concerns about their long-term financial stability when faced with the cost of higher education.

Not only would a federally backed refinance and modification program be a positive move for the economy and individual borrowers, but it would also strengthen a program whose primary purposes are to provide low-interest education loans to anyone who meets the basic criteria and to increase access to education, which allows people the opportunity to move up the economic ladder. Any student loan refinance and modification program would need to provide protections for borrowers, to guarantee lower interest rates, and to stimulate the economy.

As outlined below, the cost of such a program would vary significantly depending upon its exact structure. Previous estimates indicate that a swap of private loans for federally backed loans would generate billions of dollars of revenue for the federal government.²¹ Other models could blend private and public investment, which would allow the federal government to operate it at a low cost. Ultimately, though, the Congressional Budget Office will need to score various models and proposals for firmer cost projections.

Federal loans

The majority of student loans are federally backed loans. At the end of 2011, there were 35 million borrowers, approximately \$364 billion in outstanding Federal Family Education Loans, or FFEL loans—loans that were guaranteed by the federal government but issued by private lenders—and \$342 billion in outstanding Direct loans²²—loans that were issued directly by the federal government.²³

FFEL loans are no longer being issued and are now offered more efficiently as Direct loans. A significant amount of them, however, still exist at a range of interest rates. Interest rates for Direct loans could be directly lowered, but thanks to existing agreements between FFEL lenders and the federal government, the cost of a FFEL refinancing program could be borne by both the private lenders who hold the existing loans and the federal government. The exact ratio of payments and the net costs would depend entirely on the specifics of the refinancing mechanism.

Mechanisms for refinancing FFEL loans

FFEL loans could be refinanced in two ways:

- Directly swapping FFEL loans for Direct loans
- Providing a fund or incentive for FFEL lenders to refinance loans while retaining them in the FFEL market

Various models of swapping FFEL loans for Direct loans could in fact generate revenue for the federal government or be cost neutral. The entire federal loan system switched from

FFEL loans to Direct loans because the latter are less expensive; it is also less expensive for the federal government to convert FFEL loans into Direct loans. Unlike FFEL loans, Direct loans are not issued by private lenders. The ultimate cost of the program would of course depend upon what new interest rates the loans acquired, but switching loan types would merely hasten the already inevitable end of the FFEL program.

On the other hand, the federal government could keep FFEL loans intact while still reducing interest rates by using a fund or incentives. This model by itself, however, would not pass along the better protections afforded to borrowers with Direct loans, and it would not generate the same levels of direct revenue for the federal government. The reason it still deserves some consideration is that it avoids some secondary consequences of a complete swap and could be designed with a similar structure to certain private student loan refinancing models. This could make it easier for a program for private loans and a program for FFEL loans to move in tandem.

One example of how such a loan-transfer mechanism could work in practice is the Ensuring Continued Access to Student Loans Act, which Congress enacted in 2008 in order to introduce liquidity into a secondary FFEL private-securities market.²⁴ At that time student loans were still being made through private lenders. Because of the economic climate, however, lenders were running out of capital with which to make new loans. Due to that concern, the legislation was passed, allowing the federal government to purchase loan securities and ensuring the continued availability of student loans. The program expired in 2010, at which point the Department of Education had purchased more than \$100 billion of student loan securities.²⁵

Between the act and its Direct loan program, the federal government ended up financing about 88 percent (by dollar volume) of the federal student loans made during the 2008-09 academic year.²⁶ These loans were purchased at high reimbursement rates exceeding 95 percent and were therefore very desirable to the lenders. Furthermore, the Congressional Budget Office stated:

[The law's] effect on the federal budget has been to lower the cost of the student loan programs. Purchasing guaranteed loans allows the Department of Education to avoid some of the payments it would have made to FFEL lenders. Once the loans are purchased, payments from the government to FFEL lenders cease, and the loans are serviced and administered by the department's contractors. Thus, the purchased loans have the same costs as direct student loans.²⁷

While these loans did not result in any increased costs to the Department of Education, the reimbursement rates were likely significantly higher than they would have been if they had been purchased in the private market. Future use of a similar mechanism could be more efficiently priced to result in net savings for the federal government rather than simply being cost neutral.

One example of a loan consolidation and refinancing program is the Health Care and Education Reconciliation Act, which was passed in 2010 and expired in 2011. Under the Health Care and Education Reconciliation Act, eligible FFEL loans could be consolidated into Direct loans.²⁸ This temporary program provided borrowers the opportunity to simplify their loan repayment process. The program reduced interest rates on the total consolidated FFEL loan and Direct loan balance to 0.25 percent.²⁹

The Federal Reserve provides another example of the purchase of both FFEL loans and private student loan securities. In November 2008 the Federal Reserve announced the creation of the Term Asset-Backed Securities Loan Facility under the Federal Reserve Act.³⁰ The program was intended to improve economic and market conditions by purchasing asset-backed securities. Originally, there were four categories of asset-backed securities that qualified, one being student loans. The program was closed on March 31, 2010,³¹ and all loans that the program extended will expire no later than March 30, 2015.³²

Private loans

Private student loans account for between \$150 billion and \$200 billion³³ of outstanding student debt and 2.9 million borrowers.³⁴ These loans tend to be the most egregiously harmful to borrowers, as they often have high variable rates and poor customer support.³⁵ A study conducted by the Consumer Financial Protection Bureau found that interest rates for private student loans varied widely—from 2.98 percent to 19 percent.³⁶

Moreover, borrowers frequently submit complaints concerning customer support. The study cited borrowers who noted “challenging repayment experiences,” in addition to other negative experiences with private student loan providers. The Consumer Financial Protection Bureau concluded that there are significant “opportunities to improve customer satisfaction and reduce customer harm among some borrower segments.”³⁷

A subset of these private loans—the ones that have the highest interest rates and are made to the highest-risk borrowers—have a disproportionate drag on the economy, as these borrowers often become unable to make payments and thus find their loan amounts skyrocketing even further.³⁸

Mechanisms for refinancing and modifying private student loans

Turning private loans into Direct loans

One option is to simply swap all private student loans for Direct loans. A version of this mechanism has been proposed previously by Sen. Sherrod Brown (D-OH) as part of the Private Student Loan Debt Swap Act of 2009.³⁹ The proposal would require that private education loans be exchanged for Direct loans for borrowers who were eligible for

unsubsidized Stafford Loans under the FFEL program after July 1, 1994, or were eligible for PLUS loans for graduate or professional education after July 1, 2006.⁴⁰

There are many benefits of using this mechanism. First, it would give existing borrowers immediate access to the critical federal protections that do not exist for private student loan borrowers. They could, for example, gain access to Pay As You Earn—a plan that took effect in December 2012 and seeks to cap monthly payments for eligible loans at affordable amounts.⁴¹

Depending on the exact interest rate, this mechanism could be low cost or even generate revenue for the federal government. The Congressional Budget Office scored Sen. Brown's bill as generating nearly \$10 billion in revenue for the government.⁴²

There are some challenges, however, that go along with this mechanism. It could, for example, result in a significant influx of a variety of different loans into the Direct loan program. As a result, the legislation would need to ensure that there are sufficient resources, staff, and processes in place at the Department of Education to handle the increased loan portfolios. The program would need to be structured in a way that would avoid a pure bailout of the private student loan industry and provide individual borrowers protections against abusive lending practices in the future. Pricing the loan purchases correctly would also be important. We address this issue in more depth in the decision points section of this document.

Another challenge for this mechanism: If the option to enroll in such a program were left to the individual borrowers, lending institutions would heavily market the refinance option to high-risk borrowers. If the lending institutions decided participation, they would offload the highest-risk borrowers and retain the lower-risk borrowers in order to maximize profits. This would result in the refinance program costing significantly more money for the federal government to administer.

Using a federally backed fund

Another option to refinance and modify private student loans is to use a federally backed fund to provide new incentives for private loan borrowers to refinance their loans. The federal government could do this by providing initial seed capital to create the fund or by providing specific lines of credit for a private entity to create a refinance fund. These funds could then be used to refinance a smaller number of eligible private loans. Furthermore, if enrollment in the federally backed fund were optional to the individual borrowers, then lending entities would be incentivized to provide refinancing options of their own to their lower-risk borrowers. This allows the capital investment to be leveraged to have a broader impact on the market.

Conversely, if the enrollment criteria were decided at the institutional level or based upon security purchases, the refinancing fund could potentially be started using a com-

bination of both federal and private resources. The benefit of using a fund is that it could ensure that numerous parties, including private entities, still share the risks for loans they issued because they would have to invest some capital in the outcome of the loans.

Using a federally backed fund, however, has its share of challenges. It would need to be structured to ensure that those in greatest need of assistance are not ignored by a pool or program. And the fund could require a certain blend of risk, for example, in the makeup of refinanced loans. Another option would be to make specific funds that are only eligible to certain income groups. It would also create a new category of hybrid loans that would need to be regulated akin to new regulations on private loans. These loans would be the first to be partially owned by both the federal government and a private entity at the securities level, as Federal Family Education Loans, for example, were simply guaranteed by the federal government.

Regardless of the mechanism, however—whether it is implemented through new congressional action or through executive action based upon existing authority—upon its implementation it is important for the refinancing mechanism to be paired with new regulations for the private lenders who are marketing education loans. This would help prevent a similar dramatic increase in defaults and interest rates for a large set of borrowers from occurring in the future. These protections might include new bankruptcy rules, loan-certification requirements, a universal Pay As You Earn (formerly known as income-based repayment) repayment system, and automatic enrollment in Pay As You Earn.

Decision points

One benefit of a federally backed student loan refinancing and modification program—whether by turning private loans or FFEL loans into Direct loans or by creating a federally backed fund—is that it is relatively simple to grasp—many Americans are familiar with similar mortgage-refinancing programs. There are many viable options for designing the size, scope, and mechanism of a federally backed refinancing program. Below are some of the overarching questions that need further discussion.

- **What should the mechanism be for refinancing or modifying student loans?** As explored throughout this issue brief, there are many options. All of these options, along with new ones, should be debated and proposed in the coming months in order to determine the best path forward.
- **What interest rate should be the refinance rate?** One key decision is where to set the new interest rate. The lower the rate, the more the proposal will cost. There are several tipping points, however, because it is not an even distribution, as shown in the data below.

- **What would the impact of the refinance interest rate be on loans going forward?** The interest rate on subsidized Stafford loans is set to double to 6.8 percent in 2013.⁴³ Proposals are needed to determine a long-term system for setting interest rates that ensures the continued subsidization of college for America’s students. This question also brings up the need for additional reform of the federal financial aid system going forward, even as a refinance and modification program attempts to make improvements on past loans.
- **What should be the size of the program?** As outlined above, there are a variety of options for using a pool approach or a larger change. Therefore the program could be set at any size from a \$1 billion pool to a \$100 billion swap. The broader secondary impacts of such decisions—such as the economic impact and market impact—needs to be further explored.
- **When dealing with FFEL and private loan purchases, how should loan portfolios be valued?** Previous purchases of private loan securities—from the Ensuring Continued Access to Student Loans Act, to the Term Asset-Backed Securities Loan Facility, to the Health Care and Education Reconciliation Act—all handled and valued the private loans differently. This formula would be highly important for ensuring the most efficient usage of federal resources.
- **How long should the program last?** Some elements of the program could be short term, but it would be possible to put in place some elements of a program that lasted indefinitely. There could also be options for an extended period of time for refinancing. This is particularly important if the program has any opt-in elements.
- **How can the proposal be structured to maximize its potential as economic stimulus?** The savings to the consumer will be spread out over the life of the loan. Due to the current economic climate, however, it may be beneficial to concentrate more of the benefits in the short term via a loan holiday or a similar program. Since loan payments tend to take place over such a long period of time, rather than evenly reducing payments as the result of a refinance, it would be possible to frontload the savings and therefore increase the immediate stimulus even if the net impact remains the same.
- **What kinds of loans should be refinanced?** Many types of loans should be refinanced, including FFEL loans, Direct loans, private student loans, and loans such as Stafford or PLUS loans.
- **Should there be a cap on the income of those eligible to participate in the program?** One way to limit the size of the program is to target it to those who are most in need of assistance.

FIGURE 2
Impact of the refinance interest rate on federal student loans

Refinance rate	Federal loans impacted
4 percent	86.63 percent
5 percent	69.92 percent
6.8 percent	56.21 percent

Source: Original calculations based on the volume of Outstanding FFEL loan and Direct loan principal as of July 2012. For calculation purposes, an assumption was made that consolidated loans were evenly distributed.

- **What new protections should be put in place?** As outlined throughout this issue brief, new protections clearly would be needed as part of a refinance and modification program. The best package of options would need to be paired with the specific refinance scope and mechanism.

There are additional decision points regarding mechanisms; impacts on the loans market; secondary impacts on the economy; the scope and scale of existing borrowers to include in a federally backed refinancing and modification program; consumer protections; the capacity of the Department of Education to handle an increased volume of loans; and more, which will explore in the coming months. These questions do not change the underlying concept of passing along the current low interest rates to the tens of millions of Americans struggling with student debt. This would not only help them but it would stimulate the economy as well.

Conclusion

Borrowers need relief, and reductions in their monthly loan payments will boost the entire economy. While there are a variety of different ways to structure a student loan refinance and modification program, the end result must be the same: Any student loan refinance and modification program would need to provide protections for borrowers, guarantee lower interest rates, and stimulate the economy. As we move forward with improving the educational system for those currently or about to enroll in higher education, it is important to not leave behind the tens of millions of Americans who still possess student debt.

We will be issuing additional products in the coming months as part of our efforts around the “It’s Our Interest” campaign, through which we hope to provide a platform and opportunities for the numerous stakeholders—from nonprofits and businesses to Congress and the federal government—to submit their own opinions and plans for how to best deal with student loan debt.

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Appendix A

Outstanding principal and interest for FFEL loans and Direct loans as of July 2012

Interest rate category	Total outstanding principal	Percent outstanding principal	Total outstanding interest	Percent outstanding interest	Current or assumed average rate
52W + 3.1%	\$694,017,000	0.08%	\$191,180,450	0.53%	8.20%
52W + 3.25%	\$1,180,352,725	0.13%	\$936,468,175	2.61%	10.70%
91D + 2.3%	\$65,698,054,775	7.51%	\$1,998,305,325	5.57%	5.25%
91D + 3.1%	\$16,932,060,200	1.93%	\$3,130,927,200	8.72%	8.20%
91D + 3.25%	\$1,665,012,150	0.19%	\$1,159,174,800	3.23%	10.70%
FXD at 3.4%	\$28,347,101,475	3.24%	\$3,816,625	0.01%	3.40%
FXD at 4.5%	\$28,270,261,450	3.23%	\$97,930,475	0.27%	4.50%
FXD at 5.6%	\$28,211,088,425	3.22%	\$269,869,700	0.75%	5.60%
FXD at 6%	\$26,069,860,125	2.98%	\$353,503,300	0.98%	6.00%
FXD at 6.8%	\$279,156,961,600	31.90%	\$13,847,424,075	38.58%	6.80%
FXD at 7%	\$430,402,000	0.05%	\$281,288,075	0.78%	7.00%
FXD at 7.9%	\$44,950,012,825	5.14%	\$2,349,118,525	6.55%	7.90%
FXD at 8%	\$146,465,775	0.02%	\$90,541,675	0.25%	8.00%
FXD at 8.5%	\$22,033,072,475	2.52%	\$1,125,550,400	3.14%	8.50%
FXD at 9%	\$471,277,525	0.05%	\$353,282,750	0.98%	9.00%
FXD at 12%	\$84,975,750	0.01%	\$85,855,400	0.24%	12.00%
FXD at 14%	\$1,634,075	0.00%	\$850,000	0.00%	14.00%
WTD <2%	\$387,095,200	0.04%	\$5,459,400	0.02%	2.00%
WTD 2-4%	\$88,286,787,425	10.09%	\$950,300,000	2.65%	3.00%
WTD 4-6%	\$117,978,330,225	13.48%	\$2,485,732,475	6.93%	5.00%
WTD 6-8%	\$94,773,539,525	10.83%	\$3,412,241,900	9.51%	7.00%
WTD 8-10%	\$29,174,461,700	3.33%	\$2,702,268,650	7.53%	9.00%
WTD >=10%	\$230,870,700	0.03%	\$59,437,200	0.17%	11.00%
Grand Total	\$875,173,695,125	100.00%	\$35,890,526,575	100.00%	

Source: This Department of Education data was provided to Campus Progress by the Department of Education and is accurate as of July 2012. It is based upon a 4 percent sample of national student loan data; amounts are therefore approximate and will not exactly tie to the General Ledger. Note: FXD = fixed rates and WTD = weighted rates. Int. = interest, prin. = principal, W = weeks, and D = days.

Methodology

Interest rate category	Current or assumed average rate	Outstanding principal	Percent total	2013 interest payments*	2013 interest, refinanced at 5%*	Change in 2013 disposable income*
FXD at 14%	14	\$1,634,075	0.00%	\$0.16	\$0.05	\$0.11
FXD at 12%	12	\$84,975,750	0.01%	\$7.08	\$2.61	\$4.46
WTD >=10%	11	\$230,870,700	0.03%	\$17.35	\$7.10	\$10.25
52W + 3.25%	10.7	\$1,180,352,725	0.13%	\$85.87	\$36.28	\$49.59
91D + 3.25%	10.7	\$1,665,012,150	0.19%	\$121.13	\$51.18	\$69.96
FXD at 9%	9	\$471,277,525	0.05%	\$28.04	\$14.49	\$13.55
WTD 8-10%	9	\$29,174,461,700	3.33%	\$1,735.69	\$896.74	\$838.96
FXD at 8.5%	8.5	\$22,033,072,475	2.52%	\$1,227.42	\$677.23	\$550.19
52W + 3.1%	8.2	\$694,017,000	0.08%	\$37.10	\$21.33	\$15.77
91D + 3.1%	8.2	\$16,932,060,200	1.93%	\$9,052.25	\$5,204.41	\$3,847.84
FXD at 8%	8	\$146,465,775	0.02%	\$7.61	\$4.50	\$3.11
FXD at 7.9%	7.9	\$44,950,012,825	5.14%	\$2,622.05	\$1,592.84	\$1,029.20
FXD at 7%	7	\$430,402,000	0.05%	\$19.23	\$13.23	\$6.00
WTD 6-8%	7	\$94,773,539,525	10.83%	\$4,233.85	\$2,913.06	\$1,320.79
FXD at 6.8%	6.8	\$279,156,961,600	31.90%	\$13,806.56	\$9,892.17	\$3,914.39
FXD at 6%	6	\$26,069,860,125	2.98%	\$1,124.86	\$923.81	\$201.05
FXD at 5.6%	5.6	\$28,211,088,425	3.22%	\$1,268.72	\$1,125.73	\$143.00
91D + 2.3%	5.25	\$65,698,054,775	7.51%	\$2,130.54	\$201.94	\$1,928.61
Subtotal		\$611,904,119,350	69.92%	\$37,525.52	\$23,578.69	\$13,946.83
Unaffected loans						
WTD 4-6%	5	\$117,978,330,225	13.48%			
FXD at 4.5%	4.5	\$28,270,261,450	3.23%			
FXD at 3.4%	3.4	\$28,347,101,475	3.24%			
WTD <2-4%	3	\$88,286,787,425	10.09%			
WTD <2%	2	\$387,095,200	0.04%			
Subtotal		\$263,269,575,775	30.08%			
Grand Total		\$875,173,695,125	100.00%			

*Amounts in millions

We estimate the potential increase to aggregate disposable income from refinancing the existing U.S. student loan portfolio at a 5 percent interest rate. This rate is chosen, for illustrative purposes, as the recent average 10-year Treasury bond interest rate (approximately 1.8 percent) plus 3.2 percentage points.⁴⁴ Setting the refinance rate at 5 percent covers 71 percent of outstanding student loans.

Based on the estimated average age of the loans, we calculate annual interest payment in 2013 for each category of student loan at the existing rate and compare this to interest payments if refinanced at 5 percent. In total, refinancing would increase disposable income in the United States by an estimated \$14 billion. Finally, we employ a conservative spending multiplier of 1.5 to estimate that interest payment reduction from student loan refinancing could boost economic activity in 2013 by an additional \$21 billion.

Endnotes

- 1 Ann Carrns, "Refinancing Spikes as Mortgage Rates Fall," *Bucks Blog*, October 3, 2012, available at <http://bucks.blogs.nytimes.com/2012/10/03/refinancing-spikes-as-mortgage-rates-fall/>.
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- 3 "SC saving \$48 M by refinancing public debt," *Associated Press*, April 16, 2012, available at <http://www.carolinalive.com/news/story.aspx?id=742556#.UOzWBba24eM>.
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