FACT SHEET

EDUCATION & THE WORKFORCE COMMITTEE

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

Renamed the *Bipartisan Student Loan Certainty Act of 2013*
and as amended by the Senate

THE PROBLEM:

In 2007 the Democrat-led Congress approved legislation to phase down the interest rate on subsidized Stafford Loans made to undergraduate students from 6.8 percent to 3.4 percent. Due to its unsustainable costs, the Democrat proposal allowed interest rates to revert back to 6.8 percent once the law expired in 2012. This temporary scheme forced student loan borrowers to face greater confusion and uncertainty regarding the cost of their college education.

Last year Congress agreed to a one-year extension of the 3.4 percent interest with the promise to use the time to develop a long-term, market-based fix to the student loan interest rate problem. Despite House action on a bipartisan, permanent solution, the Democrat-led Senate failed to act in a timely manner. As a result, interest rates on subsidized Stafford loans doubled for millions of students. Congress must act to lower rates and help make the dream of a college education more affordable for America's students.

THE SOLUTION:

In May the House approved with bipartisan support the *Smarter Solutions for Students Act* (H.R. 1911), legislation to get politicians out of the business of setting student loan interest rates by tying all federal student loans (except Perkins loans) to the market. The bill reflects a proposal put forward by President Obama in his 2014 budget proposal. Similar to the House version, the Senate-amended legislation strengthens federal student loan programs by implementing a permanent market-based interest rate. This legislation also locks in the interest rate for students at origination, for the life of the loan. Additionally, the legislation will retroactively apply to the interest rates for any loans disbursed between July 1, 2013 and the date of enactment.

THE SMARTER SOLUTIONS FOR STUDENTS ACT:

- Calculates Stafford loans using a formula based on the 10-year Treasury Note plus 2.05 percent for undergraduate students and 3.6 percent for graduate students.
- Calculates graduate and parent PLUS loans using a formula based on the 10-year Treasury Note plus 4.6 percent.
- Resets student loan interest rates once a year, allowing rates to move with the free market and ensuring borrowers can take advantage of lower interest rates when available, but locks into a fixed rate for the life of the loan once the loan is disbursed to the student.
- Protects borrowers in high interest rate environments by including an 8.25 percent cap on Stafford Loan interest rates for undergraduate students; a 9.5 percent cap on Stafford loans for graduate students; and a 10.5 percent cap for parent and grad PLUS loans.
- 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.

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