FACT SHEET

Student Loan Refinancing Impact on Low-Income Borrowers

With the growing problem of student debt in America – now $1.2 trillion – we need to have a conversation about allowing borrowers to refinance student debt, which disproportionately affects certain demographic groups, including low-income borrowers.

**Student loan debt has a significant impact on low-income borrowers.**

- Education debt has a greater impact on low-income borrowers than other American families.
  - In 2010, borrowers in the least affluent one-fifth of households faced education debt that averaged 24 percent of their household income, compared to all households where student debt equaled just 6 percent of household income. [Pew Social Trends]

- Grant aid is not nearly enough to cover the cost of college for low-income families.
  - A family in the lowest income quintile (average income of $17,011) would have to pay more than 70 percent of the family income to cover college costs, even after accounting for grant aid. [Federal Reserve Bank of San Francisco]

- Many low-income students never apply to college.
  - Some low-income students never apply because they do not think they can afford the tuition, which is contributing to a shrinking economic diversity gap at colleges and universities. [US News & World Report]

- Private lenders target low-income borrowers.
  - Low-income students and financially unsophisticated borrowers, who typically cannot rely on family and friends for advice when making key decisions related to college, are sometimes manipulated by private lenders. [NPR]

**Low-income borrowers would greatly benefit from refinancing student loans.**

- Allowing for refinancing of student loans would relieve pressure from borrowers.
  - If $30,500 of debt was paid back at a flat 6.8 percent interest rate over 25 years, it would cost borrowers $63,500.
    - Refinancing this debt to a 3.86 percent interest rate would decrease the burden to $47,600, saving around $16,000, and lowering monthly payments by about $53.
    - Refinancing this debt to a 4.8 percent interest rate would decrease the burden to $52,400, saving around $11,000, and lowering monthly payments by about $40.
  - If $26,600 of private loan debt was paid back at a flat 13.6 percent interest rate over 25 years, it would total $93,600.
    - If borrowers were given the power to refinance to a 4.8 percent interest rate, it would lower the total payment to around $45,725, saving the consumer around $48,000.

- Implementing student loan refinancing will protect borrowers, and their financial security.
  - Allowing borrowers to refinance for a lower interest rate will help them afford reasonable and flexible monthly loan payments that will not economically cripple the borrower.

*Note: Interest rate calculations are based on proposed legislation that would allow borrowers to refinance at those rates. Debt amounts are based on average debt for college graduates.

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