

FACT SHEET

Impact of Refinancing Student Loans for Low-Income Borrowers

With the growing problem of student debt in America – which now tops \$1 trillion – we need to have a conversation about allowing borrowers to refinance student debt, which disproportionately affects certain demographic groups, including low-income borrowers.

The burden of student loan debt on low-income borrowers.

- Low-income borrowers rely on funding such as Pell Grants, which continue to face significant cuts in Congress.
 - Pell Grants, which face serious cuts in the federal budget, would force low-income borrowers to borrow more in order to finance their education. [[Center For American Progress](#)]
- A full 25 percent of outstanding student debt is from low-income households.
 - In 2010, one fourth of outstanding student loan debt was from low-income households, considered those earning less than \$21,044 per year. [[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 don't think they can afford the tuition, which is contributing to a shrinking economic diversity gap across colleges and universities. [[US News & World Report](#)]
- Private lenders often 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 relating to college, are sometimes manipulated by private lenders. [[NPR](#)]

Benefits of refinancing student loans for low-income borrowers.

- Allowing the refinancing of student loans would relieve pressure from borrowers.
 - If \$30,500 of debt was paid back at a flat 6.8% interest rate over 25 years, it would cost borrowers \$63,500.
 - Refinancing this debt to a 4.1% interest rate would decrease the burden to \$49,000, saving around \$18,000, and lowering monthly payments by about \$50.
 - Refinancing this debt to a 6.1% interest rate would decrease the burden to \$59,500, saving around \$4,000, and lowering monthly payments by about \$20.
 - If \$26,600 of private loan debt was paid back at a flat 13.6% interest rate over 25 years, it would total \$93,600.
 - If borrowers were given the power to refinance to a 6.1% interest rate, it would lower the total payment to around \$51,900, saving the consumer around \$41,000.
- 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 won't cripple the borrower.