



THE STUDENT LOAN INTEREST ELIMINATION ACT OF 2026

Led in the House by: Representative Joe Courtney (CT-02)

Led in the Senate by: Senator Peter Welch (D-Vt.)

BACKGROUND: Higher education costs continue to skyrocket, with tuition rising 40 times higher than 1960s levels for public colleges—a 312.4% increase when adjusted for inflation. As a result, average college debt has more than doubled since 2007, forcing nearly 43 million Americans—1 in 6 American adults—to take out federal student loans to help pay for higher education. In Connecticut, 518,500 student loan borrowers hold a total of \$19.1 billion in federal student loan debt.

The outstanding federal student loan balance tops nearly \$2 trillion, with the average student borrower carrying a balance of \$40,000 in federal student loan debt. Federal student loans also represent over 90% of all student loan debt. Student loan debt is now the second-highest source of consumer debt, only behind home mortgages, and will continue to grow as the cost of higher education rises faster than incomes. Many borrowers are unable to make a dent in their principal because of high interest rates, causing total costs to balloon and, for some, pushing repayment into decades rather than years.

LEGISLATION: The bicameral Student Loan Interest Elimination Act would lower the cost of college and address student loan debt by refinancing the interest rate of all existing and future federal student loans to 0%. Unlike other proposals to lower student loan interest rates, the Student Loan Interest Elimination Act includes a pay-for to offset the cost of eliminating interest to save taxpayer dollars.

Currently, student loan interest is used to pay for the costs of operating the federal student loan program. Under this legislation, the Department of Education would create a Trust Fund to offset the elimination of interest. Student loan borrowers will make payments on their principal balance, which would be deposited into the Trust Fund. The Fund's Board of Trustees would invest payments from student loan borrowers into safe, stable investments, including municipal bonds and Treasury bonds. The returns on those investments would fund the costs of operating the student loan program, saving taxpayers from fronting the bill while saving borrowers from higher interest rates and student loan interest capitalization.

Any additional revenue from the Trust Fund that is not needed to support the costs of running the federal student loan program would be used to: 1) increase the amount of Pell Grants that lower-income students could receive; and 2) provide competitive grants to support college completion and retention programs at institutions of higher education.

The Trust Fund created by the legislation mirrors other successful federal programs, including the Federal Railroad Retirement Board, which utilizes a similar model to for pay federal railroad retirement benefits at no cost to the taxpayer. The program has successfully supported retirees for over two decades by investing railroad employee and employer payroll taxes in a Trust Fund. The Student Loan Interest Elimination Act will provide similar long-term support for student loan borrowers.