



HARVARD

Office of the Vice Provost for Advances in Learning



MODULE 2 UNIT 1

Interactive Infographic 1

Transcript

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HarvardX

How SoFi disrupts the student loans industry

Lucy has just received a letter from the Charlestown School of Law.

The Letter:

Dear Lucy,

Congratulations! You have been accepted to Charleston School of Law.

Your first semester starts on 16 January, beginning with orientation.

Your total cost of fees, including room and board, total to \$83,000 per year.

Get Funds

Following her acceptance to Charleston and an assessment of her finances, Lucy begins to explore some of the options available to her to fund her degree. She can either enter the federal loan system via a traditional bank, or choose to finance her degree by selecting the peer-to-peer company called SoFi.

Explore Option

SoFi

Lucy is introduced to SoFi by a friend. SoFi refinance and offer student loans by tailoring risk assessment and assessing potential student earnings. As a future lawyer, her projected earnings are considered higher than most. Her application for financing is based on her free cash flow scores, as shown here.

SoFi's Criteria

SoFi's underwriting criteria relies on free cash flows, ability to repay, credit history, and work experience.

The criteria for new borrowers include, but are not limited to, the following:

1. Applicant's identity must be verified.
2. Applicant must be at least 18 years of age and reside in a state where SoFi is authorized to lend.
3. Applicant's credit score must be greater than the minimum levels as defined in SoFi's underwriting guidelines.
4. Applicant must satisfy certain other requirements including but not limited to, historical delinquency experience and other credit bureau information.



5. Applicant's FCF, which is a measure of the borrower's excess cash per month after known debt, additional SoFi debt and estimated housing obligations based on geographic region.
6. Applicant's REC, which takes FCF less the cost of basic consumer staples and quality of life expenses such as transportation, healthcare and groceries. Standard assumptions, based on geographic regions, are used in SoFi's model and calculated for each applicant.

Choose option

SoFi began as a peer-to-peer lending platform, connecting students with university alumni in order to fund the loans. This helps ensure the school's responsibility, as alumni are actively engaged in student education and hold the universities to account should the student not complete their degree.

Following completion of her degree, Lucy is left with a loan interest rate of 3.95% per annum, leading to savings of around \$13,033. She is also now a member of SoFi's active community with access to other products offered by the company.

Bank

After conducting some research, she discovers that she only qualifies for a federal unsubsidized loan, with a fixed interest rate of around 5.6% per annum. See interest rates:

Interest rates

Interest rates for direct loans first distributed on or after July 1, 2021, and before July 1, 2022.



| Loan type | Borrower type | Loans distributed on or after July 1, 2021, and before July 1, 2022 |
|---------------------------|---|--|
| Direct subsidized loans | Undergraduate | 3.73% |
| Direct unsubsidized loans | Undergraduate | 3.73% |
| Direct unsubsidized loans | Graduate or professional | 5.28% |
| Direct PLUS loans | Parents and graduate or professional students | 6.28% |

Choose options

Lucy finally graduates Charlestown Law School. However, due to the high fixed interest rate of 5.28% she will continue to pay off these loans for a significant period of her adult life.

