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## **CBO May 2013 Baseline Projections for the Student Loan Program.**

Attached are five tables that detail the costs, loan volumes, and subsidy rates for the direct student loan program for the May 2013 CBO Baseline. Below each table is summarized:

Table 1. Includes the cost projection for each budget account associated with the student loan programs.

Table 2. Includes the loan volume and subsidy rate projections for the direct student loans.

Table 3. Includes the detailed components of the federal student loan subsidy rates for fiscal year 2013.

Table 4. Includes the Student Aid Administration expenditures.

Table 5. Includes the interest rate forecasts used in the projections associated with current and outstanding student loans.

For your information, below is a summary of the definitions of budget authority, program obligations, and outlays as they apply to the student loan program subsidy or "program" accounts:

**Subsidy Budget Authority:** Subsidy budget authority figures express what total subsidy costs would be if all the loans for which an application was received during a year were made. But all loans are seldom made--only about 90 percent. This is because prospective borrowers either do not show up for school or decide not to take all or part of the loan.

**Subsidy Obligations:** Subsidy obligations are the costs associated with all loans for which there actually will be at least one cash disbursement [shown on the attached tables as Net Annual Loan Volume]. Typically, the subsidy obligation estimates are not included on

**Subsidy Outlays:** Subsidy outlays reflect the subsidy obligations adjusted for the timing of the loan dollar disbursements. Because of the multiple disbursement requirements and the timing of the academic school year calendars compared to the federal fiscal year, only about two-thirds of the dollars are disbursed to the borrowers during the first fiscal year. The remaining dollars are disbursed in the following year.

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## TABLE 2

### TOTAL DIRECT LOAN PROGRAMS, CBO May 2013 Baseline

	(by fiscal year)										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>TOTAL ALL NEW LOANS [ New Loans Only ]<sup>a</sup></b>											
Net Annual Loan Volume (\$ millions)	105,945	108,866	112,528	116,567	120,506	124,426	128,363	132,336	136,392	140,482	144,761
Net Number of Loans (thousands)	21,516	21,761	22,169	22,630	23,072	23,501	23,936	24,378	24,796	25,208	25,637
Average Loan Amount	\$4,924	\$5,003	\$5,076	\$5,151	\$5,223	\$5,294	\$5,363	\$5,429	\$5,501	\$5,573	\$5,646
Subsidy Rate <sup>b, c, d</sup>	-36.48%	-31.34%	-23.16%	-14.77%	-8.56%	-5.92%	-5.97%	-6.00%	-6.05%	-6.11%	-6.17%
<b>SUBSIDIZED STUDENT LOANS [ New Loans Only ]</b>											
Net Annual Loan Volume (\$ millions)	27,961	28,129	28,934	29,730	30,542	31,339	32,206	33,142	34,017	34,932	35,902
Net Number of Loans (thousands)	9,318	9,436	9,627	9,805	9,985	10,160	10,351	10,548	10,720	10,899	11,087
Average Loan Amount	\$3,001	\$2,981	\$3,006	\$3,032	\$3,059	\$3,084	\$3,112	\$3,142	\$3,173	\$3,205	\$3,238
Subsidy Rate <sup>b, c, d</sup>	-13.90%	-12.49%	-5.01%	2.00%	7.27%	9.56%	9.58%	9.58%	9.60%	9.58%	9.58%
<b>UNSUBSIDIZED STUDENT LOANS [ New Loans Only ]</b>											
Net Annual Loan Volume (\$ millions)	59,125	60,516	62,039	63,967	65,849	67,751	69,637	71,559	73,495	75,367	77,315
Net Number of Loans (thousands)	10,815	10,885	11,052	11,288	11,511	11,730	11,943	12,162	12,379	12,582	12,793
Average Loan Amount	\$5,467	\$5,559	\$5,613	\$5,667	\$5,721	\$5,776	\$5,831	\$5,884	\$5,937	\$5,990	\$6,043
Subsidy Rate <sup>b, c, d</sup>	-39.93%	-33.30%	-25.01%	-16.31%	-9.86%	-7.08%	-7.08%	-7.05%	-7.05%	-7.05%	-7.05%
<b>GRADPLUS STUDENT LOANS [ New Loans Only ]</b>											
Net Annual Loan Volume (\$ millions)	8,362	9,341	10,300	11,237	12,108	12,932	13,708	14,447	15,304	16,207	17,157
Net Number of Loans (thousands)	521	563	602	636	665	689	709	726	746	767	789
Average Loan Amount	\$16,049	\$16,578	\$17,109	\$17,656	\$18,204	\$18,768	\$19,331	\$19,911	\$20,508	\$21,123	\$21,757
Subsidy Rate <sup>b, c, d</sup>	-63.60%	-54.84%	-43.71%	-32.45%	-24.56%	-21.23%	-21.23%	-21.23%	-21.23%	-21.23%	-21.23%
<b>PARENT LOANS [ New Loans Only ]</b>											
Net Annual Loan Volume (\$ millions)	10,498	10,881	11,254	11,633	12,008	12,404	12,812	13,188	13,576	13,976	14,387
Net Number of Loans (thousands)	862	875	888	900	910	922	934	942	951	960	969
Average Loan Amount	\$12,185	\$12,429	\$12,677	\$12,931	\$13,189	\$13,453	\$13,722	\$13,997	\$14,277	\$14,562	\$14,853
Subsidy Rate <sup>b, c, d</sup>	-55.59%	-49.00%	-40.75%	-32.05%	-25.55%	-22.75%	-22.75%	-22.75%	-22.75%	-22.75%	-22.75%

a. Totals exclude consolidation loans. Components may not sum to totals because of rounding.

b. The subsidy rate is the net present value of the future federal cash flows associated with the loan dollars disbursed to borrowers each year. For example, the 2014 federal cost associated with the \$108,866 million in new loan volume would be -\$34,119 million or -31.34% of the new loan volume [ $\$108,866 \times -0.3134 = -\$34,119$ ]. In other words, the federal government will save on average about 31 cents for each new dollar loaned in 2014.

c. Subsidy rates do NOT include federal administrative costs associated with disbursing and servicing loans. Those administrative costs are included in the budget on a cash basis [see Table 4.].

d. Subsidy rates were calculated using the CBO February 2013 interest rate forecast.

## TABLE 3

### Detail of the Fiscal Year Values for the 2014 Federal Subsidy Rates

[Note: The Federal Subsidy Rates are Shown in Percent for Each Dollar Loaned]

<b><u>Direct Subsidized Loans:</u></b>	
Fees	-1.00%
Disbursement	99.80%
Principal Repaid	-75.18%
Interest Paid	-36.56%
Other	0.44%
Total Subsidy Rate	-12.49%
<b><u>Direct Unsubsidized Loans:</u></b>	
Fees	-1.00%
Disbursement	99.80%
Principal Repaid	-90.66%
Interest Paid	-41.59%
Other	0.15%
Total Subsidy Rate	-33.30%
<b><u>Direct GradPLUS Loans:</u></b>	
Fees	-3.99%
Disbursement	99.75%
Principal Repaid	-74.62%
Interest Paid	-75.98%
Other	0.00%
Total Subsidy Rate	-54.84%
<b><u>Direct Parent Loans:</u></b>	
Fees	-3.99%
Disbursement	99.71%
Principal Repaid	-82.58%
Interest Paid	-62.14%
Other	0.00%
Total Subsidy Rate	-49.00%

Notes:

Components may not sum to totals because of rounding.

Because of changes in the economic forecast, subsidy rates are substantially different for years later than 2014.

TABLE 4

**STUDENT AID ADMINISTRATION--CBO May 2013 Baseline**

**MANDATORY ADMINISTRATIVE COSTS:**

		(by fiscal year, in millions of dollars)										
		<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
<b>Outstanding Guaranteed Loans:</b>												
Administrative Account	Budget Authority	346	300	284	269	255	244	234	205	185	179	174
	Outlays	362	312	288	272	259	247	237	212	190	180	175
Default Prevention (included in the Federal Student Loan Reserve Account)	Budget Authority	130	123	114	104	91	78	66	56	49	43	30
	Outlays	130	123	114	104	91	78	66	56	49	43	30
<b>Subtotal</b>	Budget Authority	<b>476</b>	<b>423</b>	<b>398</b>	<b>373</b>	<b>347</b>	<b>322</b>	<b>301</b>	<b>261</b>	<b>234</b>	<b>222</b>	<b>204</b>
	Outlays	<b>492</b>	<b>435</b>	<b>402</b>	<b>376</b>	<b>350</b>	<b>325</b>	<b>303</b>	<b>268</b>	<b>239</b>	<b>223</b>	<b>205</b>
<b>Direct Loans:</b>												
Administrative Account	Budget Authority	307	367	428	492	559	628	699	773	849	926	1,007
	Outlays	291	352	413	476	542	611	682	754	830	907	987
Nonprofit Loan Servicers	Budget Authority	323	463	479	509	542	576	612	0	0	0	0
	Outlays	275	379	448	486	520	553	587	312	84	24	0
<b>Subtotal</b>	Budget Authority	<b>629</b>	<b>830</b>	<b>907</b>	<b>1,002</b>	<b>1,101</b>	<b>1,204</b>	<b>1,311</b>	<b>773</b>	<b>849</b>	<b>926</b>	<b>1,007</b>
	Outlays	<b>566</b>	<b>731</b>	<b>860</b>	<b>962</b>	<b>1,062</b>	<b>1,163</b>	<b>1,269</b>	<b>1,066</b>	<b>914</b>	<b>931</b>	<b>987</b>
<b>Total Mandatory</b>	Budget Authority	<b>1,105</b>	<b>1,253</b>	<b>1,304</b>	<b>1,374</b>	<b>1,447</b>	<b>1,527</b>	<b>1,612</b>	<b>1,034</b>	<b>1,083</b>	<b>1,148</b>	<b>1,210</b>
	Outlays	<b>1,058</b>	<b>1,166</b>	<b>1,262</b>	<b>1,339</b>	<b>1,412</b>	<b>1,488</b>	<b>1,572</b>	<b>1,335</b>	<b>1,153</b>	<b>1,155</b>	<b>1,192</b>

**DISCRETIONARY ADMINISTRATIVE COSTS**

		(by fiscal year, in millions of dollars)										
		<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Budget Authority		988	1,007	1,029	1,054	1,080	1,107	1,134	1,161	1,188	1,217	1,245
Outlays		985	999	1,019	1,039	1,064	1,090	1,117	1,144	1,171	1,199	1,227

**TOTAL ADMINISTRATIVE COSTS**

		(by fiscal year, in millions of dollars)										
		<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Budget Authority		2,093	2,260	2,333	2,428	2,527	2,634	2,746	2,195	2,271	2,365	2,455
Outlays		2,043	2,165	2,281	2,378	2,476	2,578	2,689	2,479	2,324	2,354	2,419

NOTE: Components may not sum to totals because of rounding.

## TABLE 5

CBO May 2013 Baseline Forecast

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### HISTORICAL INTEREST RATES BY FISCAL YEAR

#### BER 91-Day Treasury Bill Rate:<sup>a</sup>

1981	15.25%
1982	12.09%
1983	8.69%
1984	9.89%
1985	8.16%
1986	6.63%
1987	5.81%
1988	6.39%
1989	8.42%
1990	7.92%
1991	6.17%
1992	3.89%
1993	3.06%
1994	3.78%
1995	5.65%
1996	5.21%
1997	5.17%
1998	5.12%
1999	4.55%
2000	5.73%
2001	4.53%
2002	1.78%
2003	1.13%
2004	1.12%
2005	2.75%
2006	4.57%
2007	4.86%
2008	2.18%
2009	0.21%
2010	0.12%
2011	0.08%
2012	0.07%

### PROJECTIONS OF INTEREST RATES BY FISCAL YEAR

#### BER 91-Day Treasury Bill Rate:<sup>a, b</sup>

2013	0.07%
2014	0.09%
2015	0.14%
2016	0.16%
2017	1.00%
2018	2.97%

#### Discount Rate--10-Year Zero Coupon Bond<sup>b</sup>

2018	5.20%
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a. BER stands for bond equivalency rate.

b. The cash flows of the student loan programs are discounted using a matrix of different zero coupon bonds. The rate shown here is the forecast for a 10-year zero coupon bond for fiscal year 2018. Thus, the 10th year of cash flows from loans made during 2018 would be discounted by this rate. It is shown here for illustrative purposes.

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