CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 15, 2008

H.R. 5715
Ensuring Continued Access to Student Loans Act of 2008

As ordered reported by the House Committee on Education and Labor on April 9, 2008

SUMMARY

H.R. 5715 would:

- Alter repayment and eligibility terms on Parent Loans for Undergraduate Students (PLUS),
- Increase the annual and aggregate borrowing limits on unsubsidized loans,
- Give the Department of Education temporary authority to purchase guaranteed loans from private lenders, and
- Clarify provisions relating to the lender-of-last-resort program.

On balance, CBO estimates that enacting the bill would increase direct spending by $320 million over the 2008-2013 period and by $390 million over the 2008-2018 period. The bill would have no impact on revenues. CBO has not yet completed an estimate of the impact of H.R. 5715 on discretionary spending; implementing the bill would probably increase costs for administering the federal student loan programs.

H.R. 5715 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 5715 is shown in the following table. The costs of this legislation fall within budget function 500 (education, training, employment, and social services).

	By Fiscal Year, in Millions of Dollars												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2008-2013	2008-2018
CHANGES IN DIRECT SPENDING													
Changes to PLUS Program													
Estimated Budget Authority	-35	-75	-75	-80	-85	-95	-100	-110	-115	-125	-135	-445	-1,030
Estimated Outlays	-20	-55	-65	-70	-75	-85	-90	-95	-105	-110	-115	-370	-885
Raise Limits on Unsubsidized Loans													
Estimated Budget Authority	-90	-180	5	105	115	105	115	125	135	145	155	60	735
Estimated Outlays	-50	-135	-45	65	100	100	100	110	115	125	135	35	620
Purchase of Guaranteed Loans													
Estimated Budget Authority	0	655	0	0	0	0	0	0	0	0	0	655	655
Estimated Outlays	0	655	0	0	0	0	0	0	0	0	0	655	655
Lender of Last Resort													
Estimated Budget Authority	*	*	*	*	*	*	*	*	*	*	*	*	*
Estimated Outlays	*	*	*	*	*	*	*	*	*	*	*	*	*
Total Changes													
Estimated Budget Authority	-125	400	-70	25	30	10	15	15	20	20	20	270	360
Estimated Outlays	-70	465	-110	-5	25	15	10	15	10	15	20	320	390

Note: PLUS = Parent Loans for Undergraduate Students; * = less than $500,000.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 5715 will be enacted before July 1, 2008. As required under the Federal Credit Reform Act of 1990, the costs of student loans are estimated on a net-present-value basis.

Changes to PLUS Program

The bill would make two changes to the PLUS program. First, it would allow parents to defer payment on their PLUS loans until six months after the dependent borrower leaves school. Under current law, parents must begin repaying the loan 60 days after disbursement.

CBO projects that approximately10 percent of parent borrowers would take advantage of this deferment before repaying their loans. Interest rates on parent loans range between 7.9 percent and 8.5 percent. Because interest on these loans would accrue during deferment, CBO estimates this provision would decrease direct spending by $370 million over the 2008-2013 period and by $885 million over the 2008-2018 period.

In addition, H.R. 5715 would allow a lender to determine that a potential PLUS borrower who is delinquent on a home mortgage payment for fewer than 181 days (and might otherwise be deemed not creditworthy) to qualify for the PLUS program due to extenuating circumstances. Based on information from lenders and other groups, CBO estimates this provision would have a negligible impact on direct spending.

Raise Limits on Unsubsidized Loans

H.R. 5715 would increase the borrowing limits on unsubsidized loans for all students by $2,000 per year and raise aggregate borrowing limits to accommodate those increases.

Based on data from the National Student Loan Data System and the National Postsecondary Student Aid Study (NPSAS) and about applicants for federal financial assistance, CBO estimates these changes would increase the volume of unsubsidized loans by more than $1 billion in fiscal year 2008; that increase would grow to more than $8 billion in fiscal year 2018. CBO expects that the volume of loans made to parents and graduate students in the PLUS program would decrease, as these students and parents would shift some of their borrowing to the unsubsidized loan program, which has a lower interest rate. CBO estimates these changes would increase direct spending by $35 million over the 2008-2013 period and by $620 million over the 2008-2018 period.

Purchase of Guaranteed Loans

The bill would grant the Department of Education the authority to purchase guaranteed loans originated on or after October 1, 2003, from lenders in the Federal Family Education Loan (FFEL) program, if the Secretary determines that there is insufficient capital available to meet the demand for guaranteed loans. The Secretary would have full discretion over the purchase price of the loans and the decision to buy. This authority would expire on July 1, 2009.

Under the bill, the Secretary could purchase guaranteed loans only after determining that such a purchase is in the best interests of the United States and does not have a cost to the government. CBO believes that the likelihood of increased costs is greater than the likelihood of increased savings if the Secretary purchases guaranteed loans for the following reasons:

- CBO expects that the volume of loans purchased by the department would vary directly with the offer price. In considering possible outcomes, higher prices would result in higher volumes, and hence relatively large costs; outcomes assuming lower prices would probably involve a lower volume of loans purchased, and any savings under such scenarios would be relatively small. Thus, the expected value of the range of possible results would be a cost.

- CBO expects that lenders would have better information about the future profitability of each loan than the Secretary and might be able to sell loans that are more likely to enter default, and thus generate costs to the government. Lenders would have an incentive to sell the loans that are most likely to result in costs to the government.

- Finally, CBO is unsure how the Secretary would balance the need to be budget-neutral with a competing need to ensure that the loan guarantee industry has sufficient capital to make student loans for the upcoming school year.

For those reasons, we expect that allowing the Department of Education to purchase guaranteed loans would likely increase costs to the federal government. Based on preliminary information from FFEL lenders, guaranty agencies, and the Department of Education, CBO estimates this provision could increase direct spending by $655 million in 2009. Those costs could be higher or lower depending on what price the Secretary sets for guarantee purchases.

Lender of Last Resort

H.R. 5715 also would clarify two provisions of the lender-of-last-resort program, which provides loans to students who otherwise are unable to obtain a loan under the regular loan application process. First, it would specify that guaranty agencies may carry out the functions of the lender-of-last-resort program on a school-wide basis rather than an individual borrower basis. CBO estimates that this provision would have a negligible impact on direct spending.

Second, it would clarify that the Secretary of Education has the authority to advance federal funds to guaranty agencies serving as lenders of last resort who do not have sufficient capital to originate guaranteed loans. CBO estimates this provision would have no impact on direct spending because the U.S. Department of Education has this authority under current law and has published regulations governing the lender-of-last-resort authority.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 5715 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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