

March 13, 2012

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**MEMORANDUM**

**TO:** Interested Parties

**FROM:** Deborah Kalcevic  
Justin Humphrey

**SUBJECT:** CBO March 2012 Baseline Projections for the Student Loan and Pell Grant Programs.

Attached are five tables that detail the costs, loan volumes, and subsidy rates for the direct student loan program for the March 2012 CBO Baseline as well as two tables that detail the Pell Grant Program. 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 2012.

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.

Table 6. Includes the March 2012 baseline for the Pell Grant Program.

Table 7. Includes the program costs for the Pell Grant Program assuming a maximum discretionary award level of \$4,860.

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 budget tables.

**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

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## TOTAL DIRECT LOAN PROGRAMS, CBO March 2012 Baseline

	(by fiscal year)										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>TOTAL ALL NEW LOANS [ New Loans Only ] a/</b>											
Net Annual Loan Volume (Mil \$)	112,248	112,677	114,684	117,401	120,738	124,371	128,780	133,321	137,973	142,807	147,822
Net Number of Loans (thousands)	23,251	23,293	23,412	23,674	24,098	24,640	25,322	26,022	26,742	27,485	28,251
Average Loan Amount	\$4,828	\$4,837	\$4,898	\$4,959	\$5,010	\$5,048	\$5,086	\$5,123	\$5,159	\$5,196	\$5,232
Subsidy Rate b/ c/ d/	-30.50%	-32.42%	-28.22%	-22.36%	-17.24%	-12.58%	-10.13%	-8.53%	-8.39%	-8.46%	-8.55%
<b>SUBSIDIZED STUDENT LOANS [ New Loans Only ]</b>											
Net Annual Loan Volume (Mil \$)	36,339	30,405	30,707	31,093	31,629	32,319	33,134	33,970	34,830	35,714	36,622
Net Number of Loans (thousands)	10,532	10,367	10,405	10,471	10,586	10,755	10,956	11,162	11,371	11,584	11,801
Average Loan Amount	\$3,450	\$2,933	\$2,951	\$2,969	\$2,988	\$3,005	\$3,024	\$3,043	\$3,063	\$3,083	\$3,103
Subsidy Rate b/ c/ d/	-10.03%	-15.09%	-10.71%	-5.05%	-0.71%	3.20%	5.31%	6.68%	6.89%	6.91%	6.89%
<b>UNSUBSIDIZED STUDENT LOANS [ New Loans Only ]</b>											
Net Annual Loan Volume (Mil \$)	55,549	60,881	61,630	62,713	64,262	65,981	68,233	70,564	72,974	75,467	78,046
Net Number of Loans (thousands)	11,119	11,285	11,327	11,459	11,703	12,014	12,426	12,853	13,294	13,751	14,223
Average Loan Amount	\$4,996	\$5,395	\$5,441	\$5,473	\$5,491	\$5,492	\$5,491	\$5,490	\$5,489	\$5,488	\$5,487
Subsidy Rate b/ c/ d/	-34.99%	-33.77%	-29.59%	-23.68%	-18.31%	-13.47%	-10.88%	-9.16%	-8.94%	-8.94%	-8.94%
<b>GRADPLUS STUDENT LOANS [ New Loans Only ]</b>											
Net Annual Loan Volume (Mil \$)	8,233	9,089	9,948	10,816	11,680	12,500	13,393	14,303	15,203	16,163	17,181
Net Number of Loans (thousands)	537	588	640	694	747	798	853	908	962	1,021	1,083
Average Loan Amount	\$15,338	\$15,446	\$15,532	\$15,591	\$15,634	\$15,663	\$15,707	\$15,759	\$15,798	\$15,835	\$15,871
Subsidy Rate b/ c/ d/	-59.78%	-57.84%	-51.99%	-44.06%	-36.98%	-30.55%	-27.13%	-24.87%	-24.56%	-24.53%	-24.53%
<b>PARENT LOANS [ New Loans Only ]</b>											
Net Annual Loan Volume (Mil \$)	12,126	12,302	12,400	12,779	13,166	13,571	14,020	14,484	14,967	15,463	15,973
Net Number of Loans (thousands)	1,064	1,053	1,040	1,051	1,062	1,073	1,087	1,101	1,115	1,129	1,144
Average Loan Amount	\$11,401	\$11,686	\$11,920	\$12,158	\$12,401	\$12,649	\$12,902	\$13,160	\$13,424	\$13,692	\$13,966
Subsidy Rate b/ c/ d/	-51.33%	-49.81%	-45.65%	-39.68%	-34.22%	-29.32%	-26.71%	-25.03%	-24.82%	-24.82%	-24.82%

a. Totals exclude consolidation loans. Components may not sum to totals due to 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 2013 federal cost associated with the \$112,677 million in new loan volume would be -\$35,530 million or -32.42% of the new loan volume [ $\$112,677 \times -0.3242 = -\$36,530$ ]. In other words, the federal government will save on average about 32 cents for each new dollar loaned in 2013.

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 March 2012 interest rate forecast.

# TABLE 3

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## Detail of the Fiscal Year Values for the 2013 Federal Subsidy Rates 1/

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

<b><u>Direct Subsidized Loans:</u></b>		
Fees		-1.00%
Disbursement		99.82%
Principal Repaid		-75.78%
Interest Paid		-38.53%
Other		0.40%
	Total Subsidy Rate	<u>-15.09%</u>
<b><u>Direct Unsubsidized Loans:</u></b>		
Fees		-1.00%
Disbursement		99.81%
Principal Repaid		-89.99%
Interest Paid		-42.75%
Other		0.15%
	Total Subsidy Rate	<u>-33.77%</u>
<b><u>Direct GradPLUS Loans:</u></b>		
Fees		-3.99%
Disbursement		99.80%
Principal Repaid		-76.98%
Interest Paid		-76.67%
Other		0.00%
	Total Subsidy Rate	<u>-57.84%</u>
<b><u>Direct Parent Loans:</u></b>		
Fees		-3.99%
Disbursement		99.78%
Principal Repaid		-82.29%
Interest Paid		-63.30%
Other		0.00%
	Total Subsidy Rate	<u>-49.81%</u>

Components may not sum to totals due to rounding.

1./ Due to changes in the economic forecast, subsidy rates are substantially different for years later than 2013.

TABLE 4

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**STUDENT AID ADMINISTRATION--CBO March 2012 Baseline**

**MANDATORY ADMINISTRATIVE COSTS:**

		(by fiscal year, in millions of dollars)										
		<u>2012</u>	<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>
<b>Outstanding Guaranteed Loans:</b>												
Administrative Account	Budget Authority	317	274	231	195	168	149	134	104	81	8	0
	Outlays	355	288	242	204	175	153	137	112	87	26	2
Default Prevention (included in the Federal Student Loan Reserve Account)	Budget Authority	35	35	35	35	1	1	1	1	1	0	0
	Outlays	35	35	35	35	1	1	1	1	1	0	0
<b>Subtotal</b>	Budget Authority	<b>352</b>	<b>309</b>	<b>265</b>	<b>230</b>	<b>169</b>	<b>150</b>	<b>135</b>	<b>105</b>	<b>83</b>	<b>8</b>	<b>0</b>
	Outlays	<b>390</b>	<b>323</b>	<b>277</b>	<b>239</b>	<b>176</b>	<b>155</b>	<b>139</b>	<b>113</b>	<b>88</b>	<b>26</b>	<b>2</b>
<b>Direct Loans:</b>												
Administrative Account	Budget Authority	46	57	71	86	103	122	142	161	179	196	212
	Outlays	47	57	67	82	99	117	137	157	175	192	208
Nonprofit Loan Servicers	Budget Authority	274	348	476	494	526	559	595	632	0	0	0
	Outlays	191	287	394	464	502	537	571	607	322	87	25
<b>Subtotal</b>	<b>Budget Authority</b>	<b>320</b>	<b>405</b>	<b>547</b>	<b>580</b>	<b>629</b>	<b>681</b>	<b>737</b>	<b>794</b>	<b>179</b>	<b>196</b>	<b>212</b>
	<b>Outlays</b>	<b>238</b>	<b>344</b>	<b>461</b>	<b>546</b>	<b>600</b>	<b>654</b>	<b>708</b>	<b>763</b>	<b>497</b>	<b>279</b>	<b>233</b>
<b>Total Mandatory</b>	<b>Budget Authority</b>	<b>672</b>	<b>714</b>	<b>812</b>	<b>809</b>	<b>798</b>	<b>831</b>	<b>872</b>	<b>899</b>	<b>262</b>	<b>204</b>	<b>212</b>
	<b>Outlays</b>	<b>628</b>	<b>667</b>	<b>738</b>	<b>784</b>	<b>776</b>	<b>808</b>	<b>846</b>	<b>876</b>	<b>585</b>	<b>306</b>	<b>235</b>

**DISCRETIONARY ADMINISTRATIVE COSTS**

		(by fiscal year, in millions of dollars)										
		<u>2012</u>	<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>
Budget Authority		1,043	1,060	1,079	1,099	1,121	1,145	1,171	1,198	1,225	1,254	1,283
Outlays		973	1,024	1,061	1,086	1,107	1,130	1,155	1,181	1,208	1,236	1,265

**TOTAL ADMINISTRATIVE COSTS**

		(by fiscal year, in millions of dollars)										
		<u>2012</u>	<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>
Budget Authority		1,715	1,774	1,891	1,908	1,919	1,976	2,043	2,097	1,487	1,458	1,495
Outlays		1,601	1,691	1,799	1,870	1,883	1,938	2,001	2,057	1,793	1,542	1,500

NOTE: Components may not sum to totals due to rounding.

# TABLE 5

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## CBO March 2012 Baseline Forecast

### HISTORICAL INTEREST RATES BY FISCAL YEAR

#### BER 91-Day Treasury Bill Rate: a/

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%

### PROJECTIONS OF INTEREST RATES BY FISCAL YEAR

#### BER 91-Day Treasury Bill Rate: a/b/

2012	0.05%
2013	0.08%
2014	0.27%
2015	1.27%
2016	2.44%
2017	3.17%

#### Discount Rate--10-Year Zero Coupon Bond b/

2017	4.48%
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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 2017. It is shown here for illustrative purposes.

Table 6

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## FEDERAL PELL GRANT PROGRAM, DISCRETIONARY BASELINE, CUMULATIVE SURPLUS/SHORTFALL, FUNDING GAP

MARCH 2012 BASELINE

	(by fiscal year; budget authority, program costs and outlays in millions of dollars)										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>PELL GRANT PROGRAM, DISCRETIONARY PORTION ONLY, CBO MARCH BASELINE a/</b>											
<b>Regular Appropriation b/</b>											
Maximum award	\$4,860	---	---	---	---	---	---	---	---	---	---
Budget Authority	22,824	23,144	23,463	23,805	24,193	24,627	25,106	25,586	26,088	26,613	27,138
Outlays	20,186	21,652	24,501	23,573	23,907	24,307	24,752	25,231	25,716	26,225	26,749
<b>Mandatory funding under section 401(b)(7)(A)(iv) of the Higher Education Act of 1965 c/</b>											
Budget Authority	13,795	7,587	588	0	0	1,574	1,382	1,409	1,430	1,145	1,145
Outlays	10,483	9,572	5,928	499	6	425	1,506	1,391	1,414	1,353	1,148

**ESTIMATED DISCRETIONARY CUMULATIVE SHORTFALL/SURPLUS c/, d/**

	(by fiscal year, in millions of dollars)						
	2006	2007	2008	2009	2010	2011	2012
Regular Discretionary Appropriation	13,045	13,661	14,215	17,288	17,495	22,956	22,824
American Recovery and Reinvestment Act of 2009	0	0	0	15,640	0	0	0
Healthcare and Education Reconciliation Act of 2010	0	0	0	0	0	13,500	0
DOD and Full-Year Cont. Appropriations Act of 2011	0	0	0	0	0	0	3,183
Budget Control Act of 2011	0	0	0	0	0	0	10,000
Consolidated Appropriations Act, 2012	0	0	0	0	0	0	612
Total Available Budget Authority	13,045	13,661	14,215	32,928	17,495	36,456	36,619
Estimated Program Costs	<u>12,826</u>	<u>14,697</u>	<u>16,062</u>	<u>26,856</u>	<u>30,541</u>	<u>30,716</u>	<u>30,634</u>
Cumulative Surplus/Shortfall (-)	219	-817	-2,664	3,408	-9,638	-3,898	2,087

**ESTIMATED DIFFERENCE BETWEEN BUDGET AUTHORITY NEEDED TO SUPPORT A MAXIMUM AWARD OF \$4,860 AND AVAILABLE FUNDING**

	(by fiscal year, in millions of dollars)									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Estimated Program Cost for \$4,860	30,659	31,254	31,476	31,761	32,068	32,408	32,808	33,284	33,727	34,118
Cumulative Surplus for 2006-2012 d/	2,087	0	0	0	0	0	0	0	0	0
Mandatory Budget Authority Available e/	<u>7,587</u>	<u>588</u>	<u>0</u>	<u>0</u>	<u>1,574</u>	<u>1,382</u>	<u>1,409</u>	<u>1,430</u>	<u>1,145</u>	<u>1,145</u>
Total additional budget authority needed f/	20,985	30,666	31,476	31,761	30,494	31,026	31,399	31,854	32,582	32,973

a. The CBO March baseline does not represent a projection of expected costs for the Pell Grant Program. As with all other discretionary programs, the budget authority is calculated by inflating the budget authority appropriated for fiscal year 2012. Outlays for future years are based on these levels of budget authority. **These totals DO NOT reflect the impact of the cap on discretionary appropriations as set forth in the Budget Control Act of 2011.**

b. Outlays for 2012 include \$23 million in spending from budget authority provided in the American Recovery and Reinvestment Act of 2009.

c. Budget authority provided in the Healthcare and Education Reconciliation Act of 2010, the Department of Defense and Full-Year Continuing Resolution Appropriations Act of 2011, the Budget Control Act of 2011, and the Consolidated Appropriations Act, 2012, is classified as mandatory spending. However, the funding is being used to augment the funding provided in annual appropriations to support the discretionary portion of the Pell Grant Program.

d. Cumulative surplus budget authority as calculated under the Pell scoring rule, as in section 406 of the 2006 Budget Resolution (H. Con. Res. 95).

e. Mandatory budget authority available to supplement funding for the discretionary portion of the Pell Grant Program. Provided in section 401(b)(7)(A)(iv) of the Higher Education Act of 1965.

f. Estimated budget authority needed to support a maximum award level of \$4,860 under the Pell scoring rule, as in section 406 of the 2006 Budget Resolution (H. Con. Res. 95).

Table 7

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## FEDERAL PELL GRANT PROGRAM, PROGRAM COSTS ASSUMING A MAXIMUM DISCRETIONARY AWARD LEVEL OF \$4,860

MARCH 2012 BASELINE

	(by fiscal year, program costs and outlays in millions of dollars)												
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2012-2017	2012-2022
<b>Discretionary Pell Grant Program</b>													
<b>Assumed Discretionary Maximum Award Level a/</b>	\$4,860	\$4,860	\$4,860	\$4,860	\$4,860	\$4,860	\$4,860	\$4,860	\$4,860	\$4,860	\$4,860		
<b>Total Federal Spending for Discretionary Pell Grants</b>													
Program Costs	30,634	30,659	31,254	31,476	31,761	32,068	32,408	32,808	33,284	33,727	34,118	187,852	354,197
Outlays	30,692	30,641	30,819	31,308	31,550	31,841	32,157	32,513	32,932	33,398	33,828	186,852	351,681
<b>Mandatory Pell Grant Program</b>													
<b>Projected Additional Mandatory Award b/</b>	\$690	\$785	\$865	\$950	\$1,050	\$1,170	\$1,170	\$1,170	\$1,170	\$1,170	\$1,170		
<b>Total Federal Spending for Mandatory Pell Grant Add-on</b>													
Program Costs	4,998	5,776	6,509	7,255	8,144	9,204	9,296	9,404	9,527	9,645	9,759	41,885	89,515
Outlays	5,014	5,208	5,966	6,703	7,487	8,421	9,218	9,324	9,436	9,557	9,675	38,799	86,009
<b>Total Pell Grant Program</b>													
<b>Total Maximum Award</b>	\$5,550	\$5,645	\$5,725	\$5,810	\$5,910	\$6,030	\$6,030	\$6,030	\$6,030	\$6,030	\$6,030		
<b>Total Federal Spending for Pell Grants</b>													
Program Costs	35,631	36,435	37,763	38,730	39,905	41,273	41,704	42,212	42,810	43,371	43,878	229,736	443,712
Outlays	35,706	35,849	36,785	38,011	39,038	40,262	41,375	41,837	42,369	42,956	43,503	225,651	437,690
<b>Total Projected Recipients (in thousands)</b>	9,620	9,750	9,910	10,030	10,190	10,340	10,450	10,590	10,740	10,880	11,020		

a/ The maximum award level for the discretionary portion of the Pell Grant Program is set each year in the annual appropriations act. In the most recently enacted appropriations act, it was set at \$4,860.

b/ The additional mandatory award level is based on a maximum discretionary award level of \$4,860. If the discretionary award level were set at a different amount, the mandatory award level would also change.