CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Keith Hall, Director

February 10, 2016

Honorable Tom Price, M.D.
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Re: Calculating the Budgetary Costs of Changes in Student Loan Programs

Dear Mr. Chairman:

This letter corrects my response to a question posed during the House Budget Committee's hearing last week on the budget and economic outlook. At that hearing, Congressman Woodall asked about the budgetary effects of reducing the volume of student loans made through federal programs. In response, I incorrectly stated that CBO's cost estimate for legislation reducing the volume of such loans would show budgetary savings for purposes of budget enforcement.

For such purposes, CBO calculates the subsidy costs for student loans following the procedures specified in the Federal Credit Reform Act of 1990 (FCRA). Under those procedures, in CBO's January 2016 baseline projections, the discounted present value of expected income from federal student loans made during the 2016–2026 period is projected to exceed the discounted present value of the government's costs; that is, the loan program, overall, is projected to show budgetary savings.[1] As a result, reducing the total volume of student loans made during the next decade would reduce those savings, resulting in budgetary costs.

1. Present value is a single number that expresses a flow of current and future income or payments in terms of an equivalent lump sum received or paid today; the present value depends on the rate of interest—known as the discount rate—that is used to translate future cash flows into current dollars.

FCRA accounting, however, does not consider all the risks borne by the government. In particular, it omits market risk—the risk taxpayers face because federal receipts from payments on student loans tend to be low when economic and financial conditions are poor and resources are therefore more valuable. Fair-value accounting methods account for such risk, and the Concurrent Resolution on the Budget for Fiscal Year 2016 (S. Con. Res. 11) requires CBO to include fair-value estimates as additional information in cost estimates for legislation affecting student loan programs. Using fair-value estimating procedures, CBO estimates that, in total, student loans made during the 2016-2026 period will result in budgetary costs, so reductions in their volume would result in budgetary savings.[2]

Sincerely,

Keith Hall
Director

cc: Honorable Chris Van Hollen
Ranking Member

Honorable Rob Woodall

2. For a more detailed discussion of the budgetary issues related to student loans, see Congressional Budget Office, *Costs and Policy Options for Federal Student Loan Programs*, (March 2010), www.cbo.gov/publication/21018; and Congressional Budget Office, *Fair-Value Accounting for Federal Credit Programs* (March 2012), www.cbo.gov/publication/43027.