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Paying for College: What the Federal Investment Means for Students and Universities

Committee for Education Funding

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Federal Student Loan Programs

- The Federal Direct Student Loan Program
 - As of 2010, all new federal student loans are originated in the direct loan program.
 - The federal government serves as the lender by providing the capital for loans.
 - Loans are serviced by private-sector companies.
 - Nearly \$100 billion in new loans originated in fiscal year 2017.

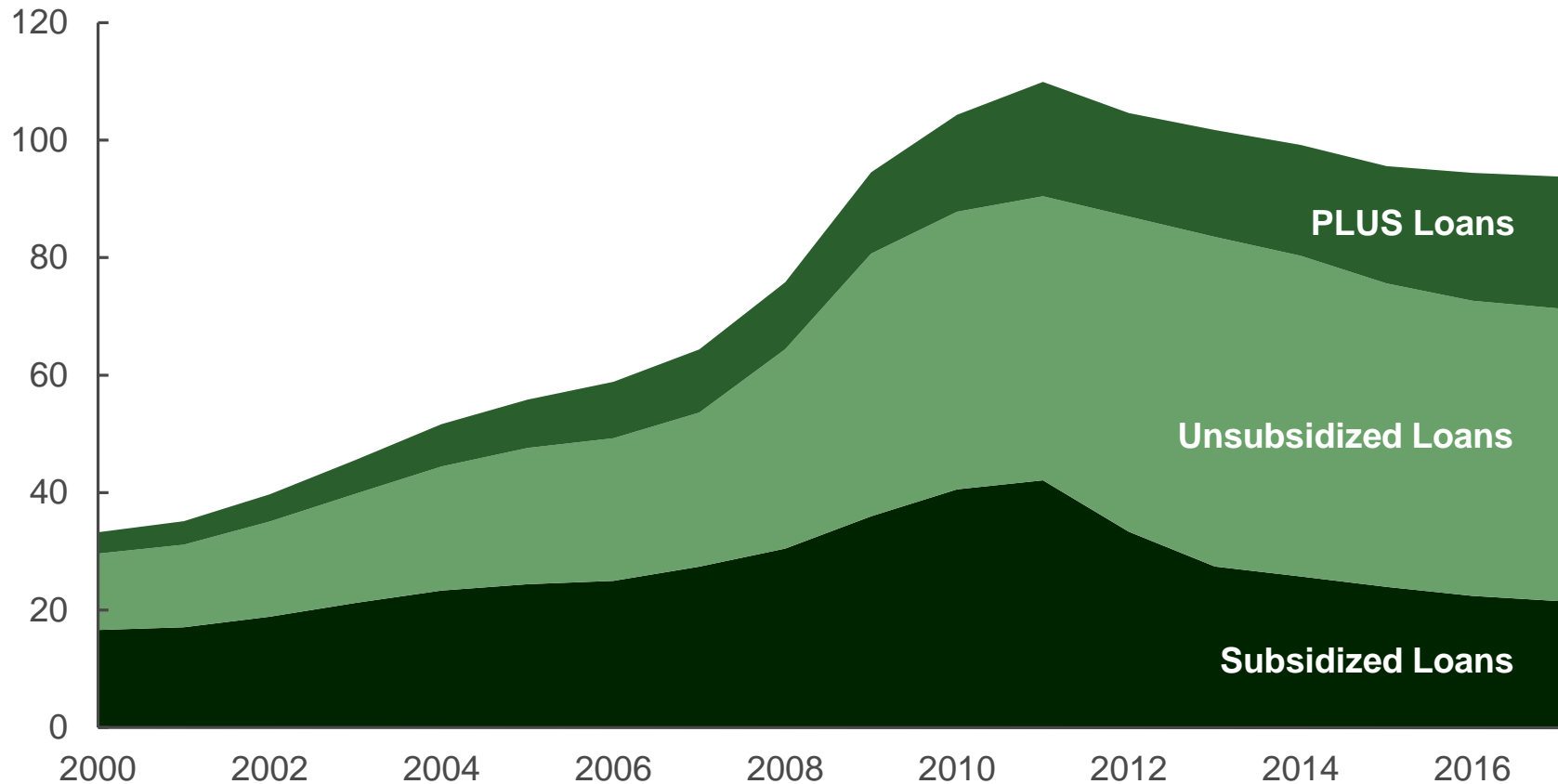
- The Federal Guaranteed Student Loan Program
 - Before 2010, schools could choose between the direct and guaranteed loan programs.
 - Loans were made by banks and other financial institutions, and the federal government insured those loans against loss and paid a portion of the borrowers' interest.
 - Terms for borrowers were nearly identical in the two programs.
 - No new guaranteed loans are being issued, but borrowers are still repaying loans that originated before 2010.

Types of Student Loans

- **Subsidized loans** are need-based loans for undergraduate students. No interest accrues while the borrower is enrolled in school or during other deferment periods. The maximum amount of borrowing varies according to a borrower's year in school and dependency status.
- **Unsubsidized loans** are non-need-based loans for undergraduate and graduate students. Interest accrues at all times. The maximum amount of borrowing varies according to a borrower's year in school and dependency status.
- **PLUS loans** are non-need-based loans for graduate students and parents of dependent undergraduates. Borrowing is limited only by the cost of attendance.

Volume of New Federal Student Loans, by Loan Type, Fiscal Years 2000 to 2017

Total Loans (Billions of dollars)



Estimates of the Costs of Federal Student Loans

Federal Credit Reform Act estimating procedures

- The estimated net cost of a loan to the federal government is shown in the year the loan is originated.

- To determine that cost, CBO estimates all future cash flows for a cohort of loans originated in a specific year.
 - Under a process called discounting, the value of future cash flows is expressed in terms of today's dollars.
 - Credit-reform rules require the use of the interest rate on Treasury securities with the same terms of maturity (the rate at which the government borrows money) for discounting.

Fair-value estimating procedures

- The same estimated cash flows are used, but the discount rate applied to those cash flows is based on market prices rather than rates on Treasury securities.

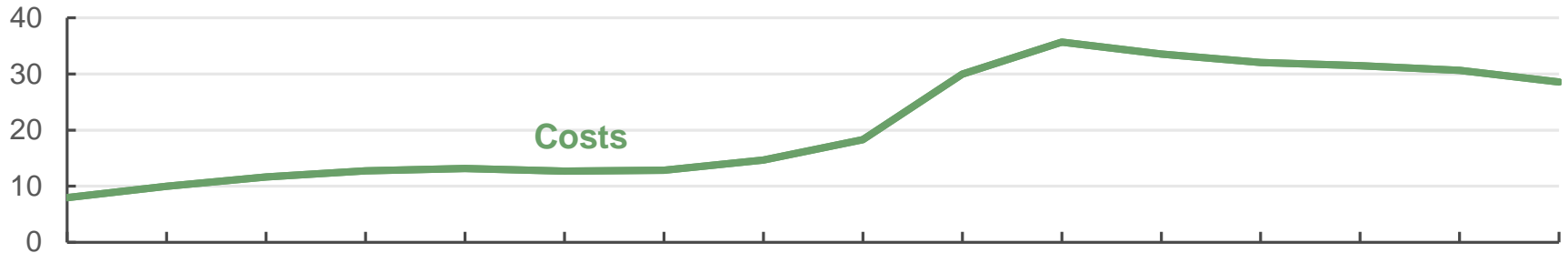
Pell Grant Program Overview

- The Pell grant program is the largest federal postsecondary student aid grant program.
 - Recipients must be undergraduate students who have never received a bachelor's degree (with some exceptions).
 - Eligibility and award amounts are based on students' income and assets (including parents' income and assets if the students are dependents).

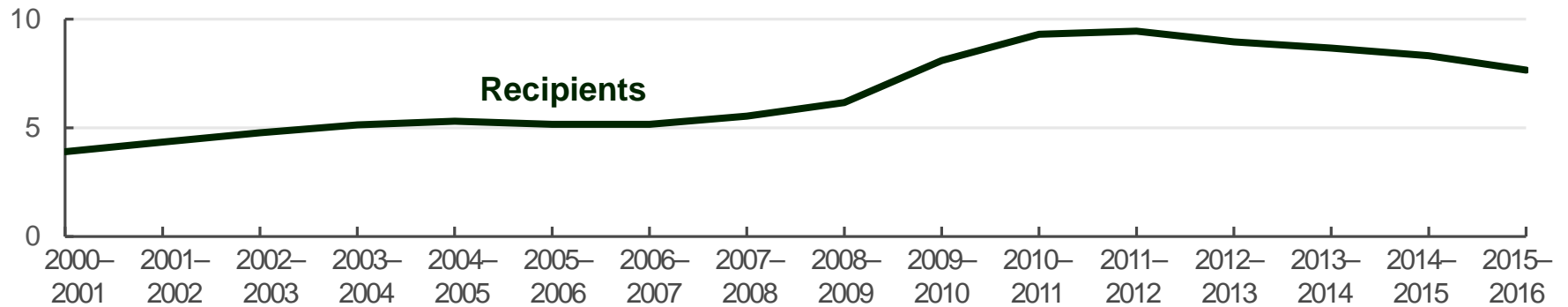
- Program projections for award year (AY) 2018–2019 (based on CBO's April 2018 baseline):
 - 7.5 million Pell grant recipients
 - Total maximum award = \$6,095
 - Average award = about \$4,100
 - Total federal spending = \$30.6 billion

Pell Grant Program Costs and Recipients, Academic Years 2000–2001 to 2015–2016

Billions of Dollars



Millions of Recipients



Components of Funding for Pell Grants

Discretionary

Discretionary Funding

- Budget authority is provided by the Congress to support the Pell program.
- The maximum award for the discretionary component of the program (currently \$5,035, up from \$4,860 in AY 2017–2018) is set in the annual appropriation act.

Mandatory-for-Discretionary Pell Funding

- A specified amount of mandatory budget authority is available to supplement funding for the discretionary portion of the Pell grant program, as provided in the Higher Education Act.

Mandatory

Mandatory Add-On

- An unlimited amount of mandatory budget authority, the “mandatory add-on,” is available to cover the difference between the total maximum award and the discretionary maximum award set in an appropriation act.
- AY 2018–2019:
 - Total maximum award = \$6,095; mandatory add-on = \$1,060

Campus-Based Aid Programs

Campus-based aid programs are administered directly by financial aid offices at each participating institution:

- **Federal Work Study Program:** Provides more than \$1 billion in funding each year to pay for the employment of undergraduate and graduate students. Almost all of that amount comes from federal funding.
- **Federal Supplemental Educational Opportunity Grant Program:** Provides about \$1 billion in grants each year for low-income undergraduate students. Of that amount, about \$700 million comes from federal funding.
- **Federal Perkins Loan Program:** Provides low-interest loans for both undergraduate and graduate students with exceptional financial need (no new loans originated after September 30, 2017). The annual volume is roughly \$1 billion.

CBO's April 2018 Supplemental Student Loan and Pell Grant Data

CBO's April 2018 Projections: Student Loan Totals, Credit-Reform Basis

Millions of dollars, by fiscal year

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2018–2028
Direct Student Loans												
Budget Authority	-14,188	-4,601	-1,634	-327	-1,229	-3,058	-4,227	-4,104	-4,085	-4,112	-4,042	-45,607
Outlays	-14,762	-5,441	-2,464	-826	-984	-2,334	-3,564	-3,835	-3,793	-3,809	-3,781	-45,592
Guaranteed Student Loans												
Budget Authority	1,884	-391	-351	-315	-279	-240	-195	-157	-129	-105	-87	-365
Outlays	1,672	-578	-513	-452	-392	-333	-270	-218	-178	-145	-119	-1,526
Student Aid Administration (Discretionary)^a												
Budget Authority	1,679	1,718	1,759	1,804	1,848	1,892	1,939	1,998	2,032	2,080	2,129	20,879
Outlays	1,622	1,685	1,731	1,776	1,820	1,864	1,910	1,963	2,006	2,051	2,099	20,525
Student Aid Administration (Mandatory)^b												
Budget Authority	1,372	1,438	1,486	1,537	1,593	1,654	1,713	1,762	1,799	1,836	1,874	18,064
Outlays	1,309	1,422	1,474	1,524	1,579	1,639	1,698	1,749	1,790	1,826	1,864	17,875
Total Student Loans												
Budget Authority	-9,253	-1,835	1,260	2,699	1,933	248	-769	-501	-383	-301	-126	-7,028
Outlays	-10,159	-2,913	228	2,022	2,023	836	-225	-341	-175	-76	63	-8,718

Components may not add up to totals because of rounding. 2018 totals include reestimates of the cost of the outstanding loan portfolio.

a. Projections of discretionary spending for administering student aid are based on an inflation of the budget authority provided in the most recent appropriation act, rather than on an estimate of the future costs of administering the program.

b. Projections of mandatory spending for administering student aid are based on estimated future costs of administering federal loan programs.

CBO's April 2018 Projections: Total Loan Volume, Direct Loan Program, Credit-Reform Basis

Millions of dollars, by fiscal year

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Total All New Loans^a											
Net Annual Loan Volume	95,829	99,319	102,621	106,168	110,213	114,569	118,723	123,131	127,798	132,740	137,976
Subsidy Rate ^{b, c, d}	-8.20%	-4.15%	-1.56%	-0.43%	-1.14%	-2.51%	-3.30%	-3.10%	-2.97%	-2.89%	-2.74%
Subsidized Student Loans											
Net Annual Loan Volume	21,744	22,460	23,108	23,716	24,446	25,249	26,137	26,957	27,830	28,760	29,750
Subsidy Rate ^{b, c, d}	8.26%	12.13%	14.44%	15.45%	14.79%	13.49%	12.70%	12.83%	12.92%	13.01%	13.13%
Unsubsidized Student Loans: Undergraduate											
Net Annual Loan Volume	22,773	23,523	24,213	24,875	25,678	26,574	27,575	28,524	29,549	30,655	31,849
Subsidy Rate ^{b, c, d}	-1.58%	1.73%	3.61%	4.50%	3.85%	2.65%	1.96%	2.16%	2.25%	2.31%	2.41%
Unsubsidized Student Loans: Graduate											
Net Annual Loan Volume	27,759	28,833	29,888	31,122	32,498	33,948	35,152	36,601	38,128	39,738	41,436
Subsidy Rate ^{b, c, d}	-11.66%	-6.57%	-3.18%	-1.72%	-2.53%	-4.13%	-5.10%	-4.89%	-4.77%	-4.68%	-4.53%
Grad PLUS Student Loans											
Net Annual Loan Volume	10,653	11,231	11,804	12,456	13,174	13,932	14,602	15,389	16,218	17,091	18,011
Subsidy Rate ^{b, c, d}	-13.05%	-7.42%	-3.81%	-2.31%	-3.22%	-4.95%	-5.94%	-5.71%	-5.57%	-5.47%	-5.30%
Parent Loans											
Net Annual Loan Volume	12,900	13,272	13,608	13,999	14,418	14,867	15,258	15,660	16,072	16,496	16,930
Subsidy Rate ^{b, c, d}	-36.17%	-34.08%	-32.45%	-31.54%	-32.01%	-32.94%	-33.53%	-33.30%	-33.23%	-33.24%	-33.19%

Components may not add up to totals because of rounding.

a. Totals exclude consolidation loans stemming from loans issued prior to 2018.

b. The subsidy rate is the net present value of the future federal cash flows divided by the loan dollars disbursed to borrowers each year.

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.

d. Subsidy rates were calculated using CBO's April 2018 interest rate forecast.

CBO's April 2018 Projections: Student Loan Totals, Fair-Value Basis

Millions of dollars, by fiscal year

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2018–2028
Direct Student Loans												
Budget Authority	2,967	18,264	21,131	22,855	23,070	22,658	22,689	23,737	24,772	25,839	27,043	235,025
Outlays	-276	14,882	17,676	19,531	20,158	19,973	19,870	20,495	21,410	22,339	23,359	199,416
Guaranteed Student Loans												
Budget Authority	1,884	-391	-351	-315	-279	-240	-195	-157	-129	-105	-87	-365
Outlays	1,672	-578	-513	-452	-392	-333	-270	-218	-178	-145	-119	-1,526
Student Aid Administration (Discretionary)^a												
Budget Authority	1,679	1,718	1,759	1,804	1,848	1,892	1,939	1,998	2,032	2,080	2,129	20,879
Outlays	1,622	1,685	1,731	1,776	1,820	1,864	1,910	1,963	2,006	2,051	2,099	20,525
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Budget Authority	1,372	1,438	1,486	1,537	1,593	1,654	1,713	1,762	1,799	1,836	1,874	18,064
Outlays	1,309	1,422	1,474	1,524	1,579	1,639	1,698	1,749	1,790	1,826	1,864	17,875
Total Student Loans												
Budget Authority	7,901	21,030	24,025	25,881	26,232	25,964	26,146	27,339	28,474	29,650	30,960	273,604
Outlays	4,326	17,411	20,367	22,379	23,165	23,143	23,209	23,989	25,028	26,072	27,203	236,290

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b. Projections of mandatory spending for administering student aid are based on estimated future costs of administering federal loan programs.

Total Pell Grant Program Costs, 2018 to 2028

Budget authority, program costs, and outlays in millions of dollars, by fiscal year

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2018– 2023	2018– 2028
Discretionary Pell Grant Program													
Assumed Discretionary Maximum Award Level ^a	5,035	5,035	5,035	5,035	5,035	5,035	5,035	5,035	5,035	5,035	5,035		
Total Spending for Discretionary Pell Grants													
Estimated Program Costs	24,436	24,587	24,984	25,490	26,116	26,501	27,091	27,812	28,460	29,265	30,081	152,114	294,824
Estimated Outlays	23,649	24,466	24,693	25,117	25,654	26,214	26,656	27,280	27,980	28,671	29,477	149,793	289,857
Mandatory Pell Grant Program													
Mandatory Add-On Award ^b	1,060	1,060	1,060	1,060	1,060	1,060	1,060	1,060	1,060	1,060	1,060		
Total Spending for Mandatory Pell Grant Add-On													
Estimated Program Costs	6,148	6,190	6,315	6,434	6,559	6,623	6,733	6,875	7,005	7,162	7,317	38,270	73,361
Estimated Outlays	6,026	6,158	6,223	6,346	6,467	6,575	6,652	6,770	6,908	7,046	7,202	37,795	72,374
Total Pell Grant Program													
Total Maximum Award	6,095	6,095	6,095	6,095	6,095	6,095	6,095	6,095	6,095	6,095	6,095		
Total Spending for Pell Grants													
Estimated Program Costs	30,584	30,777	31,300	31,924	32,676	33,124	33,824	34,687	35,465	36,427	37,399	190,384	368,185
Estimated Outlays	29,675	30,624	30,916	31,463	32,121	32,789	33,308	34,050	34,889	35,717	36,680	187,588	362,231
Total Projected Recipients (in thousands)	7,480	7,490	7,620	7,770	7,960	8,070	8,200	8,380	8,560	8,770	9,000		

a. The maximum award level for the discretionary portion of the Pell grant program is set each year in the annual appropriation act. In the most recently enacted appropriation act, the award level was set at \$5,035.

b. Under current law, the amount of the mandatory add-on for each year over the 2018–2028 period is the same as the amount in award year 2017–2018, which was published by the Department of Education in a Dear Colleague Letter on October 18, 2016.