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The Cost of Federal Student Loan and Repayment Programs

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Federal Student Loans: Direct and Guaranteed Loans

As of 2010, all new federal student loans are originated in the **Federal Direct Student Loan Program**.

- The federal government serves as the lender by providing the capital for the loans. The loans are therefore direct loans.
- The loans are still serviced by private-sector companies.

Before 2010, schools could also participate in the **Federal Family Education Loan Program**.

- 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. The loans were therefore guaranteed loans.
- The terms for borrowers were nearly identical to those in the Federal Direct Student Loan Program.

Accounting for Federal Loans in the Budget

The Federal Credit Reform Act of 1990 required the costs of all federal direct and guaranteed loans to be recorded on an accrual, or credit-reform, basis rather than on a cash basis.

In **accrual accounting**, costs are recorded when goods are received or services are performed rather than when they are paid for, and receipts are recorded when they are earned rather than when actual payments are received.

- The estimated net cost of a loan to the federal government is shown in the year the loan is originated.
- To determine that cost, the Congressional Budget Office estimates all future cash flows for a cohort of loans originated in a specific year.
- In a process called discounting, CBO determines the value in today's dollars of those future cash flows using an interest rate (called the discount rate). Credit-reform rules require the use of the interest rate on Treasury securities that have the same terms of maturity as those of the loans.

CBO's May 2019 Projections of Federal Spending on Student Loans (Credit-Reform Basis)

Millions of Dollars

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020–2029
Direct Student Loans											
Budget Authority	-4,700	-3,575	-2,265	-1,948	-1,789	-2,707	-2,928	-3,144	-3,716	-4,311	-31,083
Outlays	-4,683	-3,648	-2,533	-1,957	-1,771	-2,255	-2,672	-2,864	-3,265	-3,789	-29,437
Guaranteed Student Loans											
Budget Authority	-388	-288	-251	-203	-163	-132	-108	-90	-73	-56	-1,752
Outlays	-484	-364	-311	-251	-203	-162	-129	-105	-83	-62	-2,154
Student Aid Administration (Discretionary)^a											
Budget Authority	1,719	1,759	1,799	1,842	1,885	1,929	1,973	2,017	2,065	2,111	19,099
Outlays	1,696	1,735	1,773	1,815	1,858	1,901	1,945	1,989	2,035	2,081	18,828
Student Aid Administration (Mandatory)^b											
Budget Authority	1,355	1,402	1,451	1,500	1,550	1,592	1,623	1,654	1,685	1,769	15,581
Outlays	1,344	1,390	1,439	1,488	1,538	1,582	1,615	1,646	1,678	1,748	15,468
Total Student Loans											
Budget Authority	-2,013	-702	734	1,191	1,483	682	561	437	-39	-487	1,847
Outlays	-2,127	-888	368	1,095	1,423	1,066	760	666	365	-23	2,705

The years shown are federal fiscal years. Numbers may not add up to totals because of rounding.

- 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.

How CBO Estimates Costs: Important Inputs

- CBO's economic projections
 - Discount rate
 - Borrowers' interest rate (which equals the rate on a 10-year Treasury note)

- Timing and frequency of important events
 - How long students are in school and how long until they begin to repay loans
 - Deferment and forbearance
 - Defaults and collections
 - Forgiveness and discharge

- Borrowers' selection of repayment plans
 - Income-driven repayment plans
 - Fixed repayment plans

How CBO Estimates Costs: Sources of Data

National Student Loan Data System: CBO receives a sample file that contains longitudinal data about borrowers in the federal student loan programs.

Income Projections: CBO's income-driven repayment model uses income projections. They are derived with methods developed for the agency's model for long-term budget projections.

Additional Data From the Department of Education: CBO relies on up-to-date data from the Department of Education to project some program components, such as loan volume.