

# **The Cost of the Federal Student Loan Programs and Repayment Plans**

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# Estimated Costs of the Federal Student Loan Programs

The Federal Credit Reform Act of 1990 requires 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, estimates of both costs and any resulting receipts—that is, the net cost—are recorded when the government makes a commitment rather than when actual payments are made or received.

- The estimated net cost of a loan to the federal government is shown in the year the loan is originated. That estimate may later be revised.
- To estimate that cost, the Congressional Budget Office projects 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 February 2021 Projections of Federal Spending on Student Loans (Credit-Reform Basis)

Millions of Dollars

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2021– 2031
<b>Direct Student Loans</b>												
Budget authority	-1,167	-4,606	-6,226	-5,848	-5,149	-4,496	-3,792	-3,291	-2,562	-2,220	-1,562	<b>-40,920</b>
Outlays	-1,295	-3,105	-5,310	-5,392	-4,874	-4,276	-3,678	-3,175	-2,615	-2,193	-1,710	<b>-37,624</b>
<b>Guaranteed Student Loans</b>												
Budget authority	10	9	9	9	9	8	8	8	8	7	7	<b>92</b>
Outlays	-137	-107	-80	-60	-46	-38	-30	-28	-26	-25	-22	<b>-599</b>
<b>Student Aid Administration (Discretionary)<sup>a</sup></b>												
Budget authority	1,884	1,893	1,934	1,978	2,025	2,073	2,124	2,176	2,229	2,282	2,335	<b>22,933</b>
Outlays	1,827	1,877	1,916	1,951	1,997	2,043	2,092	2,143	2,195	2,248	2,301	<b>22,590</b>
<b>Student Aid Administration (Mandatory)<sup>b</sup></b>												
Budget authority	1,415	1,354	1,398	1,450	1,491	1,520	1,549	1,579	1,610	1,641	1,674	<b>16,681</b>
Outlays	1,323	1,388	1,412	1,445	1,490	1,513	1,541	1,572	1,602	1,634	1,666	<b>16,586</b>
<b>Total Student Loans</b>												
Budget authority	2,141	-1,349	-2,885	-2,411	-1,624	-894	-111	472	1,285	1,710	2,454	<b>-1,214</b>
Outlays	1,718	53	-2,062	-2,056	-1,433	-758	-75	512	1,156	1,664	2,235	<b>953</b>

The years shown are federal fiscal years. Numbers may not add up to totals because of rounding. February 2021 baseline totals have been updated to account for administrative actions.

<sup>a</sup> 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. Budget authority is the authority provided by federal law to incur financial obligations that will result in immediate or future outlays of federal government funds.

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

# Factors in CBO's Projections of the Cost of Student Loans

- CBO's economic projections
  - Discount rate
  - Borrowers' interest rates (which are based on the rate on a 10-year Treasury note)
  
- Timing and frequency of important events
  - Defaults and collections
  - Forgiveness and discharge
  - Deferment and forbearance
  - How long students are in school and how long until they begin repayment
  
- Borrowers' selection of repayment plans
  - Income-driven repayment plans
  - Fixed repayment plans



# CBO's Estimated Default and Collection Rates for Loans Originated in Fiscal Year 2021

Percent

<b>Loan Type</b>	<b>Default Rate</b>	<b>Collection Rate</b>
Subsidized Loans	23.6	96.9
Unsubsidized Loans (Undergraduate)	26.0	92.5
Unsubsidized Loans (Graduate)	10.7	91.9
GradPLUS (Graduate)	8.4	88.2
PLUS (Parent)	12.1	88.7

The default rate is the percentage of outstanding principal at the time of default. The collection rate is the percentage of defaulted principal and interest collected after a student defaults. The totals are not discounted in the table, and the collection rate does not include administrative costs associated with collection activities.



# Subsidy Rates for Income-Driven and Fixed Repayment Plans for Loans Originated in Fiscal Year 2021

Percent

Type of Repayment Plan	Subsidized Loans (Undergraduate)	Unsubsidized Loans (Undergraduate)	Unsubsidized Loans (Graduate)	GradPlus (Graduate)
Income-Driven Repayment Plan	21.9	8.6	12.2	26.8
Fixed Repayment Plan	<u>2.2</u>	<u>-8.6</u>	<u>-25.7</u>	<u>-40.0</u>
<b>Difference</b>	<b>19.8</b>	<b>17.1</b>	<b>37.9</b>	<b>66.8</b>

Data source: Congressional Budget Office, *Income-Driven Repayment Plans for Student Loans: Budgetary Costs and Policy Options* (February 2020), [www.cbo.gov/publication/55968](http://www.cbo.gov/publication/55968).

The subsidy rate is the cost of the loan program per dollar of loan volume. For example, a subsidized loan originated in 2021 that is repaid under an income-driven repayment plan has an estimated cost of \$0.291 for every \$1 of loan principal.

# Data CBO Uses to Estimate Costs

CBO's student loan projections are based on several sources of data:

- National Student Loan Data System: CBO receives a file each year from the Department of Education that contains the complete borrowing history of a sample of federal student loan borrowers.
- Income projections: CBO's income-driven repayment model uses income projections produced by the agency. They are derived with methods developed to produce CBO's long-term budget projections.
- Economic projections: CBO produces its own economic forecast, including projections of interest rates that are used for the borrowers' interest rate and discount rate.
- 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.

# Differences Between CBO's and Other Estimates

CBO's projections of student loans costs have been slightly lower than those of the Department of Education in recent years. Those differences can result from a variety of sources:

- Technical differences, such as projections of defaults and collections; how many borrowers would participate in income-driven repayment plans and the Public Service Loan Forgiveness program and what their income would be; and the volumes of each type of loan originated each year.
- Economic differences, such as the borrowers' interest rate and the Treasury rate used to discount cash flows.
- Procedural differences, particularly those related to the treatment of consolidation loans and administrative costs under the Federal Credit Reform Act.





# Estimated Costs of Relief for Federal Student Loans Related to the 2020–2021 Coronavirus Pandemic through December 2020

Billions of Dollars

Provision	Costs
CARES Act and Administrative Actions Before Enactment of the CARES Act	
Suspension of payments, interest accrual, and involuntary collections, direct loans	24.6
Suspension of payments, interest accrual, and involuntary collections, FFEL and ECASLA loans	2.2
Amended return of Title IV requirements, direct loans	<u>0.5</u>
Subtotal	27.3
Administrative Actions, October 2020 to December 2020	
Suspension of payments, interest accrual, and involuntary collections, direct loans	13.6
Suspension of payments, interest accrual, and involuntary collections, FFEL and ECASLA loans	<u>1.1</u>
Subtotal	14.6
<b>Total</b>	<b><u>41.9</u></b>

Data source: Office of Management and Budget; Department of Education Fiscal Year 2020 Annual Report.

The costs shown represent costs recorded by the federal government in fiscal year 2021 for the relevant provisions. The Department of Education will update those estimated costs as additional information becomes available.

CARES = Coronavirus Aid, Relief, and Economic Security; ECASLA = Ensuring Continued Access to Student Loans Act loans; FFEL = Federal Family Education Loans (also known as guaranteed loans).

# How CBO Incorporates Current Pandemic Relief Policies in Its Baseline and Estimates for Legislation

- CBO's February 2021 baseline, which includes costs for cohorts of loans originated between fiscal years 2021 and 2031, currently reflects the cost of the suspension of payments, interest accrual, and involuntary collections for direct loans through September 30, 2021.
- The baseline also reflects a 50 percent probability that those policies will be extended administratively into fiscal year 2022.
- All estimates that CBO produces for legislation reflect those assumptions.
- The costs of those policies for loans originated before 2021 will be recorded in the budget as a loan modification. The Department of Education will announce that estimated cost in its 2022 budget document. CBO will update its baseline with that amount when the budget is released.