Congressional Budget Office
Cost Estimate

May 18, 2023

At a Glance

H.J. Res. 45, a joint resolution providing for Congressional disapproval under chapter 8 of title 5, United States Code, of the rule submitted by the Department of Education relating to ''Waivers and Modifications of Federal Student Loans''

As ordered reported by the House Committee on Education and the Workforce on May 10, 2023

By Fiscal Year, Millions of Dollars	2023	2023-2028	2023-2033
Direct Spending (Outlays)	-319,570	-317,635	-315,610
Revenues	0	0	0
Decrease (-) in the Deficit	-319,570	-317,635	-315,610
Spending Subject to Appropriation (Outlays)	not estimated	not estimated	not estimated

Increases *net direct spending* in any of the four consecutive 10-year periods beginning in 2034?	> $2.5 billion
Increases *on-budget deficits* in any of the four consecutive 10-year periods beginning in 2034?	No
Statutory pay-as-you-go procedures apply?	Yes
Mandate Effects	
Contains intergovernmental mandate?	No
Contains private-sector mandate?	No

The resolution would

- Disapprove the October 2022 Department of Education rule relating to "Waivers and Modifications of Federal Student Loans," which extended the pause on student loan repayment, interest accrual, and collection through December 2022 and provided for the cancellation of student loan debt of up to $20,000 for certain borrowers

Estimated budgetary effects would mainly stem from

- Increased future repayments of principal and interest on student loans from repeal of the cancellation of existing student loan debt, thereby reducing the costs of those loans
- Increased costs to administer higher balances on outstanding loan volume

Areas of significant uncertainty include

- Estimating the amount and timing of payments from borrowers with and without the loan cancellation plan

Detailed estimate begins on the next page.

See also
CBO's Cost Estimates Explained, *CBO Describes Its Cost-Estimating Process*, *Glossary*

Resolution Summary

H.J. Res. 45 would disapprove the rule relating to "Waivers and Modifications of Federal Student Loans," issued by the Department of Education and published in the *Federal Register* on October 12, 2022. The resolution would invoke a legislative process established by the Congressional Review Act, which would repeal the rule and prohibit the department from issuing the same or similar rules in the future.

The October rule made final an announcement made on August 24, 2022, which extended the pause for payments, interest accrual, and collections of student loans from September 1, 2022, to December 31, 2022, and created a onetime loan cancellation program. Under that program, borrowers whose income fell below specified limits would be eligible for cancellation of up to $10,000 of student loan debt issued on or before June 30, 2022. Borrowers who also had received at least one Pell grant would be eligible for cancellation of an additional $10,000 in such debt.

Estimated Federal Cost

The costs of the legislation, detailed in Table 1, fall within budget function 500 (education, training, employment, and social services).

Table 1.
Estimated Budgetary Effects of H.J. Res. 45

	By Fiscal Year, Millions of Dollars												
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2023-2028	2023-2033
	Increases or Decreases (-) in Direct Spending												
Estimated Budget Authority	-319,550	380	385	390	395	400	400	405	410	410	410	-317,600	-315,565
Estimated Outlays	-319,570	375	385	390	390	395	400	400	405	410	410	-317,635	-315,610

CBO expects that if loan cancellation was repealed, the cost to administer the larger volume of loans in repayment would increase; any spending would be subject to the availability of appropriated funds.

Basis of Estimate

For this estimate, CBO assumes that the resolution will be enacted in June 2023. As required under the Federal Credit Reform Act of 1990 (FCRA), most of the costs of the federal student loan program are estimated on a net-present-value basis. A present value is a single number that expresses a flow of current and future payments in terms of an equivalent lump sum received or paid today. Under FCRA, the present value of all loan-related cash flows is calculated by discounting those expected cash flows to the year of disbursement, using the rates for comparable maturities on Treasury borrowing. For changes to the cost of outstanding loans, the estimated costs or savings are shown in the year in which the legislation making those changes is enacted. The cost of the federal government's administration of student loans is estimated on a cash basis.

Direct Spending

CBO estimates that enacting H.J. Res. 45 would reduce direct spending, on a net-present-value basis, by $319.6 billion in 2023, and by $315.6 billion over the 2023-2033 period.

Loan Cancellation. Under current law, CBO expects that borrowers whose outstanding debt is canceled will pay less in principal and interest than they would if that policy was repealed. The estimated savings is the present value of the borrowers' projected payments of principal and interest on student loans before accounting for the repeal of that policy, minus the present value of payments after doing so. Under both scenarios, the present value is calculated by discounting the payments the government receives, using methods specified in FCRA.

CBO estimates that the net-present-value of the increase in future cash inflows from borrowers—if the Administration's loan cancellation plan was repealed—would total $320 billion, thus reducing direct spending in 2023. The loan cancellation policy's implementation has been suspended while the Supreme Court reviews the plan. CBO's estimate will be updated after a decision is released.

On January 11, 2023, the Department of Education published a proposed rule in the *Federal Register* to create a new income-driven repayment (IDR) plan for federal student loans. Following CBO's long-standing convention for incorporating the effects of proposed rules into its baseline, the baseline reflects 50 percent of the estimated costs of the proposed IDR plan. CBO has reduced its estimate of loan cancellation to reflect the additional forgiveness of existing loan balances that are set to occur under the proposed IDR plan. Once the Department of Education publishes the final rule, the baseline will incorporate 100 percent of the estimated cost of the new plan and CBO will update its estimate of loan cancellation to reflect that change.

Payment Pause. CBO's baseline incorporates the assumption that the current pause on payments, interest accrual, and collections will end on August 30, 2023. CBO does not expect that enacting H.J. Res. 45 would affect the current pause because it does not expect that repayments could be restarted before that date. Enacting the resolution would prevent the department from extending the pause beyond August. However, because the baseline does not incorporate an assumption that the pause will be extended, CBO estimates that the provision would have no effect on direct spending.

Administrative Costs. Some costs for the administration of student loans, such as payments to agencies that collect defaulted loans, are classified in the budget as direct spending and shown on a cash, rather than accrual, basis. Repealing the Administration's proposed loan cancellation would result in higher loan volume from more borrowers, and thus, additional administrative costs. If debt cancellation were repealed, CBO estimates, roughly 16 million borrowers whose full debts would otherwise be cancelled, would still have remaining balances. CBO estimates that enacting H.J. Res. 45 would increase direct spending for administrative costs by about $4 billion over the 2023-2033 period.

Spending Subject to Appropriation

Additional funding to administer the student loan program is provided each year in appropriation acts. In fiscal year 2023, the Congress appropriated $2.0 billion for student aid administration, which is used to administer student loans and other student aid programs. CBO expects that if loan cancellation was repealed, the cost to administer the larger volume of loans in repayment would increase; any spending would be subject to the availability of appropriated funds.

Uncertainty

Although CBO aims to develop estimates of budgetary effects of legislation that are in the middle of the distribution of potential outcomes, the estimates of the effects of student loan cancellation are highly uncertain. In particular, significant uncertainty surrounds CBO's projections of how much borrowers will repay after the cancellation of their debt and how much they would repay if that policy was repealed.

Pay-As-You-Go Considerations

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays that are subject to those pay-as-you-go procedures are shown in Table 1.

Increase in Long-Term Net Direct Spending

CBO estimates that enacting H.J. Res. 45 would increase net direct spending by more than $2.5 billion in at least one of the four consecutive 10-year periods beginning in 2034.

CBO estimates that enacting H.J. Res. 45 would not increase on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2034.

Mandates: None.

Previous CBO Estimates

On April 25, 2023, CBO published a letter detailing the estimated budgetary effects of H.R. 2811, the Limit, Save, Grow Act of 2023, as posted on the website of the House Committee on Rules on April 19, 2023. Subsections 1 and 2 of section 211(a) of that bill are similar to H.J. Res. 45 and CBO's estimates are the same for both pieces of legislation.

In September 2022, CBO published a letter about the costs of suspending student loan payments and canceling debt. In that letter, CBO estimated the total cost of cancellation at about $400 billion over the 2023-2033 period, on a net-present-value basis. CBO has since lowered its estimate to reflect additional administrative actions, including the proposed IDR plan and CBO's most recent economic forecast.

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