Department of Education

STUDENT LOANS OVERVIEW

Fiscal Year 2012 Budget Request

CONTENTS

DEPARTMENT OF EDUCATION FISCAL YEAR 2012 PRESIDENT'S BUDGET

(in thousands of dollars) Office, Account, Program and Activity	Category Code	2010 Appropriation	2011 CR Annualized	2012 President's Budget	2012 President's Budget Compared to 2011 CR	
					Amount	Percent
Federal Direct Student Loans Program Account (HEA IV-D) [1]						
1. New loan subsidies (HEA IV-D)	M	0	0	0	0	---
2. New net loan subsidy (non-add)	M	(8,632,537)	(21,094,226)	(27,222,693)	(6,128,467)	29.1%
3. Upward reestimate of existing loans	M	3,481,859	2,781,709	0	(2,781,709)	-100.0%
4. Downward reestimate of existing loans (non-add)	M	(6,065,089)	(8,471,000)	0	8,471,000	-100.0%
5. Net reestimate of existing loans (non-add)	M	(2,583,230)	(5,689,291)	0	5,689,291	-100.0%
Subtotal, Federal Direct Student Loans Program Account		3,481,859	2,781,709	0	(2,781,709)	-100.0%
Subtotal, new net loan subsidies and net reestimate/modification (non-add)		(11,215,767)	(26,783,518)	(27,222,693)	(439,175)	1.6%
Total	M	3,481,859	2,781,709	0	(2,781,709)	-100.0%
Federal Family Education Loans Program Account (HEA IV-B) [2,3]						
1. New loan subsidies (HEA IV-B)	M	0	0	0	0	---
2. New net loan subsidies (non-add)	M	(1,701,415)	0	(1,700,406)	(1,700,406)	---
3. Upward reestimate of existing loans	M	4,274,364	177,001	0	(177,001)	-100.0%
4. Downward reestimate of existing loans (non-add)	M	(11,676,997)	(24,669,934)	0	24,669,934	-100.0%
5. Net reestimate of existing loans (non-add)	M	(7,402,633)	(24,492,933)	0	24,492,933	-100.0%
6. Upward modification of existing loans	M	0	0	283,031	283,031	---
7. Downward modification of existing loans (non-add)	M	0	0	(692,053)	(692,053)	---
8. Net modification of existing loans (non-add)	M	0	0	(409,022)	(409,022)	---
Total, FFEL Program Account	M	4,274,364	177,001	283,031	106,030	59.9%
Total, new net loan subsidies and net reestimate/modification (non-add)		(9,104,048)	(24,492,933)	(2,109,428)	22,383,505	-91.4%
Federal Family Education Loans Liquidating Account (HEA IV-B) [3]						
1. Pre-1992 student loans	M	(261,950)	(221,028)	(147,659)	73,369	-33.2%
Federal Perkins Loan Program [3, 4]						
1. New loan subsidies (proposed legislation)	M	0	0	0	0	---
2. New net loan subsidies (non-add)	M	0	0	(1,240,798)	(1,240,798)	---
Total, Federal Perkins loan program amount		0	0	0	0	---

NOTES: -Category Codes are as follows: D = discretionary program; M = mandatory program.
-Details may not sum to totals due to rounding.

[1] *Negative amounts are deposited in designated receipts accounts and are shown in General Fund Receipts.*
[2] *Includes programs authorized under the Ensuring Continued Access to Student Loans Act of 2008.*
[3] *Negative amounts are deposited in designated receipts accounts and are shown in General Fund Receipts.*
[4] *The FY 2012 Budget proposes to restructure Federal Perkins Loans as a mandatory credit program; funds supporting this programs under current law are shown in fiscal years 2010 and CR 2011 in the Student Financial Assistance account.*

Federal Family Education Loan Program (FFEL)
(Higher Education Act of 1965, Title IV, Part B)

William D. Ford Federal Direct Loan Program (Direct Loan)
(Higher Education Act of 1965, Title IV, Part D)

FY 2011 Authorization ($000s): Indefinite[1]

Budget Authority ($000s):

Net Loan Subsidies:	2011 CR	2012	Change
Direct Loans New Loan Subsidy[2]	-$21,094,226	-$27,222,693	-$6,128,467
Direct Loans Net Reestimate[3]	-5,689,291	0	+5,689,291
Direct Loans Total Net Subsidy[4]	-26,783,518	-27,222,693	-439,175
FFEL New Loan Subsidy[2]	0	-1,700,406	-1,700,406
FFEL Net Reestimate[3]	-24,492,933	0	+24,492,933
FFEL Net Modification[5]	0	-409,022	-409,022
FFEL Total Net Subsidy[4]	-24,492,933	-2,109,428	+22,383,505

Note: Details may not sum to totals due to rounding.

[1] Selected reauthorizing language authorizing the loan programs beyond FY 2008 was contained in the Higher Education Reconciliation Act (HERA) of 2005 (P.L. 109-171). The College Cost Reduction and Access Act (CCRAA) (P.L. 110-84) also amended loan program provisions and other HEA programs effective October 1, 2007. The Ensuring Continued Access to Student Loans Act (ECASLA) of 2008 (P.L. 110-227) provided the Government with purchase authority to buy Federal student loans from lenders and ensure access to FFEL loans. The law also increased Unsubsidized Stafford loan limits for undergraduates. The Student Aid and Fiscal Responsibility Act (SAFRA) of 2010 (P.L. 111-152) which was part of the larger Health Care and Education Reconciliation Act of 2010 (HCERA) terminated FFEL loans by authorizing that all new student loans would originate in the Direct Loan program as of July 1, 2010.

[2] Federal administration funds associated with the FFEL and Direct Loan accounts are shown in **Student Aid Administration**, beginning on page AA-1. New loan subsidy reflects the estimated cost of loans for the 2011 and 2012 cohorts. FFEL amounts reflect savings from proposed policy to allow borrowers to convert FFEL debt by moving the debt and servicing to the Department. Normally, the budget program account does not show budget authority if it is negative. Negative subsidy is reported (as a collection of negative outlays) to a negative subsidy receipt account. However, for informational purposes, the amounts shown above do reflect estimated negative budget authority.

[3] Reestimates of existing loans are performed annually. The large FFEL net downward reestimate in 2011 reflects decreases in the OMB-provided interest rates, and includes programs authorized under ECASLA.

[4] Total net subsidy provides a net cost of the loan programs. It includes both positive and negative subsidies and upward and downward impacts of reestimates and modifications, consistent with the presentation on page S-1.

[5] The FFEL net modification in FY 2012 reflects savings associated with older loans impacted by the proposed policy to allow borrowers to convert FFEL debt by moving the debt and servicing to the Department.

PROGRAM DESCRIPTION

The student loan programs provide students and their families with Federal loans to help meet postsecondary education costs. Student loans meet an important Administration strategic goal to help ensure the affordability, accessibility and accountability of higher education, and to better prepare students and adults for employment and future learning. With passage of the Student Aid and Fiscal Responsibility Act (SAFRA) of 2010, the Federal Family Education Loan (FFEL) program ceased making new loans as of July 1, 2010. (However, the billions of FFEL loans outstanding will continue to flow through the system and be serviced by lenders.) As of July 1, 2010, all Subsidized and Unsubsidized Stafford Loans, PLUS, and Consolidation Loans are originated in the Direct Loan program. The combined FFEL and Direct Loan new loan volume in FY 2010 was approximately $104 billion. New loan volume typically reflects new student loan demand, and therefore does not include Consolidation volume, which relates to students consolidating prior existing loans. (Consolidation volume would be included when reporting total student loan volume.) New volume in the Direct Loan program is estimated to be $116 billion in FY 2011 and $124 billion in FY 2012. This represents a substantial increase from the combined new FFEL and Direct Loan volume of $33 billion in FY 2000. In FY 2012, total loan volume in the Direct Loan program (including Consolidations) is estimated to be $147 billion, accounting for nearly 78 percent of all postsecondary aid available from the Department of Education.

The Higher Education Reconciliation Act (HERA) of 2005 (P.L. 109-171), signed into law on February 8, 2006, and the College Cost Reduction and Access Act (CCRAA) (P.L. 110-84), which became law on September 27, 2007, made substantial changes to the FFEL and Direct Loan programs. Many of the changes are discussed within the following program descriptions.

In addition, due to the deteriorating credit conditions during 2008, Congress passed the Ensuring Continued Access to Student Loans Act (ECASLA) of 2008 (P.L. 110-227), which was signed into law on May 7, 2008. This law allowed the Department of Education to provide access to capital needed by private lenders to make Federal student loans. ECASLA also increased Unsubsidized Stafford loan amounts in both the FFEL and Direct Loan programs. Given the continued concerns around capital liquidity, the ECASLA authority was extended for the 2009-2010 academic year. Using this authority, the Department established four programs designed to ensure the availability of student loans. This original need for ECASLA was eliminated after passage of SAFRA in 2010, whereby all new student loans now occur in the Direct Loan program. Other activity in ECASLA-related financing accounts will continue.

Federal Student Loans

Federal student loans were initiated under the FFEL program beginning in 1965. The Direct Loan program has operated since July 1, 1994. Because funding for the loan programs is provided on a permanent indefinite basis, for budget purposes student loans are considered separately from other Federal student financial assistance programs. However, as part of the overall Federal effort to expand access to higher education, student loans should be viewed in combination with these other programs. Since all new loans now originate as Direct Loans, this program description primarily highlights the operations of the Direct Loan program.

Generally, loan capital in the FFEL program was provided by private lenders, facilitated by the Federal guarantee on the loans. The Government also promised interest subsidies to lenders for certain situations, as well as most costs associated with loan defaults and other write-offs. In addition, State and private nonprofit guaranty agencies acted as agents of the Federal Government, providing a variety of services including collection of some defaulted loans, default avoidance activities, and counseling to schools, students, and lenders. The Government continues to provide substantial payments to these FFEL guaranty agencies. As part of the transition to Direct Loans in FY 2011, the Secretary plans to execute Voluntary Flexible Agreements (VFA) with guaranty agencies to develop, implement, and evaluate alternative ways of fulfilling guaranty agency legal obligations. The VFA arrangements are intended to facilitate a more efficient use of guaranty agencies.

The VFAs, which are required by law to be cost-neutral, will focus on enhancing the integrity of the student loan programs and eliminating redundancy and unneeded or ineffective activities. The Department expects to solicit VFA proposals from guaranty agencies in FY 2011 and negotiate and execute agreements after these proposals have been reviewed. Joint proposals from two or more agencies may be submitted.

The Direct Loan program was created by the Higher Education Amendments of 1992 as a pilot program and expanded by the Student Loan Reform Act of 1993. Under this program, loan capital is provided by the Federal Government while loan origination and servicing is handled by postsecondary institutions and private sector companies under contract with the Department. The Direct Loan program began operation in academic year 1994-1995 with 7 percent of overall loan volume. It now accounts for all new loan volume as of July 1, 2010.

Four types of loans are available: Subsidized Stafford, Unsubsidized Stafford, PLUS, and Consolidation. Financial need is required for a student to receive a subsidized Stafford loan, where the Federal Government pays the interest during in-school, grace, and deferment periods. The other three loan types are available to borrowers at all income levels. Loans can be used only to meet qualified educational expenses.

The CCRAA of 2007 included a phased interest rate reduction for new undergraduate Subsidized Stafford Loans, with fixed interest rates dropping from 6.8 percent to 6.0 percent on July 1, 2008, to 5.6 percent on July 1, 2009, 4.5 percent on July 1, 2010, and 3.4 percent on July 1, 2011. Rates for Stafford loans to graduate and professional students and for all new loans originated on or after July 1, 2012, are 6.8 percent. For all subsidized Stafford loans, interest payments are fully subsidized by the Government while a student is in school and during grace and deferment periods. However, under the proposed FY 2012 budget policy, only undergraduate students would continue to receive this in-school interest subsidy. Graduate and professional students would no longer be eligible. The borrower interest rate on all Unsubsidized Stafford loans was fixed at 6.8 percent as of July 1, 2006. The fixed borrower interest rate on Direct PLUS loans made on or after July 1, 2006, is 7.9 percent.

Although no new loans will originate in the FFEL program, those FFEL loans that are outstanding will continue to be serviced by lenders. In the FFEL program, lenders may receive an interest subsidy, called a special allowance, from the Government to ensure a guaranteed rate of return on their loans. Special allowance payments vary by loan type, are determined quarterly, and are based on current borrower interest rates and market-yield formulas. For periods when the borrower interest rate exceeds the special allowance rate on loans made on or after April 1, 2006, lenders remit the difference back to the Government; lenders retain such difference on loans made on or before April 1, 2006. Special allowance rates differ for for-profit and not-for-profit loan holders on some loans. For Stafford and Unsubsidized Stafford loans made on or after October 1, 2007, for example, the Federal Government must pay lenders a special allowance if the average 3-month commercial paper rate for a given quarter plus 1.79 percent for for-profit holders, or 1.94 percent for not-for-profit holders, is higher than the current interest rate charged to borrowers. The guarantee percentage paid to lenders on most defaults (for loans disbursed as of July 1, 2006) is 97 percent of unpaid loan principal (including any accrued interest on the full loan principal).

Consolidation loans allow borrowers to combine other loans made under Title IV of the Higher Education Act—FFEL, Direct Loans, and Perkins Loans as well as some loans made under the Public Health Service Act—into one loan, thereby eliminating multiple monthly payments during the repayment term. The interest rate for new Direct Consolidation loans equals the weighted average of the interest rate on the loans consolidated, rounded up to the nearest 1/8 of 1 percent. Interest rates for all new Direct Consolidation Loans are capped at 8.25 percent.

Direct Loan borrowers are charged an origination fee equal to 1 percent of principal. Loan limits apply as shown in the "loan maximum" table on page S-10. Borrowers in both FFEL and Direct Loan programs may be offered financial incentives to encourage prompt repayment. Loans may be discharged when borrowers die, are totally and permanently disabled, or, under limited circumstances, declare bankruptcy.

Under both programs, new borrowers after October 1, 1998, who are employed as teachers in schools serving low-income populations for 5 consecutive, complete school years, qualify for up to $5,000 in loan forgiveness; this benefit is increased to $17,500 for mathematics, science, and special education teachers considered highly qualified under criteria established in the No Child Left Behind Act of 2001. In addition, the CCRAA of 2007 established a public-service loan forgiveness program for nonprofit and public-sector employees. Eligible borrowers who have worked for 10 years while making payments on their student loan will have any remaining loan balance forgiven. This benefit is only available in the Direct Loan program, though FFEL borrowers may access the benefit by taking out a Direct Consolidation Loan, which is available for all borrowers, regardless of when they took out their loans.

FFEL borrowers may choose from among four repayment plans. Repayment periods under standard, graduated, and income-sensitive repayment may not exceed 10 years. An extended repayment plan of up to 25 years is available for new borrowers with outstanding loans totaling more than $30,000. FFEL borrowers may change repayment plans annually. Qualifying student borrowers may also choose an income-based repayment (IBR) plan under which FFEL loans (except Parent PLUS) are paid according to the borrower's income, and outstanding balances, if any, are forgiven after 25 years in repayment. (In the first 3 years, an interest subsidy is available for Stafford loans and for the Stafford Loan portion of Consolidation Loans.) To ensure that student debts are manageable, SAFRA adopted most of the Administration's 2011 budget policy—reducing monthly payments in IBR from 15 percent of a borrower's prior-year discretionary income to 10 percent, and reducing the maximum length of time a borrower is in the IBR program from 25 years to 20 years, after which any remaining balance is forgiven. New loans beginning July 1, 2014 are eligible for this treatment.

Borrowers under Direct Loans may choose from the same payment plans as in FFEL, except that instead of the FFEL income-sensitive repayment plan, an income-contingent repayment (ICR) plan is available in Direct Loans (with terms similar to the newer income-based repayment plan). Direct Loan borrowers may switch between repayment plans at any time.

In FY 2011, the first year in which Direct Loans will account for all new student loans, net commitment loan volume is estimated at $135.6 billion, which includes almost $20 billion in Consolidation loans. Approximately $221 billion in total Direct Loans was outstanding at the end of FY 2010. Across the FFEL guaranteed program—including the Liquidating account composed of loans issued before 1992—there were approximately $424 billion in FFEL loans and $100 billion in ECASLA program loans outstanding at the end of FY 2010.

Funding

Both FFEL and Direct Loans are mandatory programs whose costs are largely driven by Federal borrowing costs, prevailing interest rates, defaults, and loan volume. The programs are funded by indefinite budget authority and do not require annual congressional appropriations. A loan subsidy—the portion of cost paid by the Federal Government—is calculated for each loan cohort based on the Federal Credit Reform Act of 1990, and reflects the net present value of future cash flows associated with the Direct Loan or loan guarantee.

Both the FFEL and Direct Loan programs incur various administrative expenses, some of which are funded through subsidy while most are funded through administrative funds. In FY 2012, the Administration requests $1.1 billion in discretionary funding to administer the Federal student aid programs in the Student Aid Administration (SAA) account. This includes $725 million for student aid administration, and $370 million for loan servicing activities. In addition, $247 million in mandatory funds will be used for student loan servicing. This request is discussed in detail in the justification for **Student Aid Administration,** beginning on page AA-1.

Credit Reform Estimates

Student loan program costs are estimated consistent with the terms of the Federal Credit Reform Act of 1990. Under the Act, future costs and revenues associated with a loan are estimated for the life of the loan and discounted back to the date of disbursement using Treasury interest rates. Costs related to pre-1992 loans in the FFEL Liquidating account and most Federal administrative costs are statutorily excluded from credit reform calculations. For FFEL, credit reform costs include reimbursements to lenders for in-school interest benefits, special allowance payments to lenders, and default reinsurance payments. These costs are partially or, in 2010, more than completely offset by student and lender origination fees, negative special allowance payments—referred to as rebates—and collections on defaulted loans.

In the Direct Loan program, cash transactions consist of Federal Government loan disbursements to students, payments of student loan fees, and borrower loan repayments. Defaults and loan discharges reduce future student loan repayments. In FY 2011 and FY 2012, the Direct Loan program reflects a net total negative subsidy due in part to reduced discount rates that lower the Federal Government’s borrowing costs, while borrower repayments and origination fees contribute to increased cash flows as collections to the Federal Government helping to offset Federal costs.

Federal loan programs are often compared using subsidy rates, which represent the Federal cost (the appropriation) as a percentage of loan originations. For FFEL guaranteed loans in 2010, the Budget estimates the overall weighted average subsidy rate was -0.22 percent: that is, for this 2010 cohort, Government revenues from fees and, in particular, negative special allowance, exceed the cost of loan guarantees. (This is largely driven by historically low commercial paper rates, which result in unusually high negative special allowance payments.) For Direct Loans, the overall weighted average subsidy rate was estimated to be -7.82 percent in FY 2010; that is, the program is projected to earn about $7.82 on every $100 of loans originated.

In an effort to better reflect interest rate variability of future estimates, the Administration in 2006 implemented probabilistic scoring for the FFEL and Direct Loan programs similar to the Congressional Budget Office methodology. Previously, estimates for both the FFEL and Direct Loan programs were developed using point estimates of future interest rates. The updated method factors in the probability that a range of interest rate scenarios may differ from current economic projections.

Estimated Program Subsidy Costs

The largest loan *subsidy costs* involve in-school interest subsidies for borrowers and costs associated with borrowers who default on their loans. In FY 2012, the FFEL program will not originate any new loans or result in any new subsidy costs because the Direct Loan program assumed all new lending beginning July 1, 2010. Based on proposed policies, the Direct Loan subsidy costs in fiscal year 2012 are estimated at -$27.2 billion, supporting over $162 billion in estimated total Direct Loan gross commitments, which equates to $147 billion in net loan volume commitments—after loan cancellations.

Generally, subsidy costs may reflect a combination of positive and negative subsidy by loan type with the relative weightings by loan type and other accounting rules determining the overall net positive or negative subsidy. A negative subsidy occurs when the present value of cash inflows to the Government is estimated to exceed the present value of cash outflows. In that case, the Federal Government is earning more than it is spending.

Subsidy rates represent the Federal portion of non-administrative costs—principally interest subsidies and defaults—associated with each borrowed dollar over the life of the loan. Under Federal Credit Reform Act rules, subsidy costs such as default costs and in-school interest benefits are embedded within the program subsidy, whereas Federal administration costs are treated as annual cash amounts and are not included within the subsidy rate.

The subsidy rate reflects the estimated unit cost per loan, over the life of the loan, to the Federal Government. For example, a $1,000 loan with Federal subsidy costs of $100 would have a subsidy rate of 10 percent. If loan subsidy costs were negative, such as -$100, the loan would have a negative subsidy rate of -10 percent, indicating that the Federal Government was earning 10 percent on each loan instead of incurring a cost. Program changes, economic conditions, as well as borrower repayment patterns can affect subsidy estimates and reestimates.

For FY 2012, the Direct Loan program weighted average subsidy rate is estimated to be -16.77 percent. Annual variations in the subsidy rate are largely due to the relationship between the OMB-provided discount rate that drives the Government's borrowing rate and the interest rate at which borrowers repay their loans. Technical assumptions regarding defaults, repayment patterns, and other borrower characteristics would also apply. The loan subsidy estimates are particularly sensitive to fluctuations in the discount rate. Even small shifts in economic projections may produce substantial movement, up or down, in the subsidy rate.

Reestimates

Under credit reform, the Department annually reestimates the cost of all outstanding loans by cohort to reflect updated modeling assumptions, the President's Budget economic assumptions, and actual experience. In essence, the reestimating process allows for a "reality check" each year whereby the most recent economic and technical assumptions get applied to prior cohorts.

For the approximately $221 billion in Direct Loans outstanding at the end of 2010, the Budget projects net future Federal costs will be lower in FY 2011 than estimated in last year's President's Budget. The total change in costs for all outstanding Direct Loan program account loans at the end of FY 2010 is depicted as the 2011 reestimate. The 2011 total net downward reestimate of approximately -$5.7 billion reflects an upward component of about +$2.8 billion and a downward component of -$8.5 billion. The upward reestimate requires a current-year (i.e., FY 2011) mandatory appropriation.

The total change in costs for all outstanding FFEL guaranteed program account loans at the end of 2010 is reflected as the 2011 reestimate. The 2011 FFEL guaranteed loan reestimate reflects an upward component of +$146 million and a downward component of -$18.8 billion for a total net downward reestimate of approximately -$18.6 billion. Thus, the estimated Federal cost of prior FFEL guaranteed loan cohorts (1992-2010) is now lower by $18.6 billion as reflected in the net downward reestimate.

The four ECASLA programs, discussed on page S-3, show a net downward reestimate of -$5.9 billion which when combined with the FFEL guaranteed portion produces an overall net downward FFEL reestimate of about -$24.5 billion. This large net downward FFEL reestimate is due primarily to decreases in the OMB-provided interest rates released under the 2012 President's Budget economic assumptions.

Loan Terms

Generally, the Federal Government provides four types of student loans:

- Subsidized Stafford Loans are subsidized, low-interest, fixed rate loans based on financial need. The Federal Government pays the interest while the student is in school and during grace and deferment periods. For loans made on or after July 1, 2006, interest rates are fixed at 6.8 percent. The CCRAA authorized a phased reduction to the interest rate for undergraduates borrowing Stafford Loans so that by July 1, 2011, the rate would be cut in half to 3.4 percent for loans originated for a period of 1 year. The scheduled reduction follows: 6.0 percent starting July 1, 2008; 5.6 percent starting July 1, 2009; 4.5 percent starting July 1, 2010; 3.4 percent starting July 1, 2011. The interest rate reverts to 6.8 percent for loans originated as of July 1, 2012.

- Unsubsidized Stafford Loans are low-interest, fixed rate loans that are available to student borrowers, regardless of financial need. The Federal Government does not pay accrued interest. Borrowers may defer payment of interest while in school and have it capitalized until entering repayment. For loans made on or after July 1, 2006, the interest rate is fixed at 6.8 percent.

- PLUS Loans are available to parents of dependent undergraduate students and to graduate and professional students. The Federal Government does not pay interest accruing on PLUS Loans. The PLUS interest rate is fixed at 7.9 percent.

- Consolidation Loans allow borrowers with existing student loans to combine their obligations and possibly extend their repayment schedules based on their total student loan debt outstanding. The interest rate for Consolidation Loans is based on the weighted average of the underlying loans being consolidated rounded up to the nearest 1/8 of 1 percent.

STUDENT LOANS OVERVIEW

DIRECT LOAN PROGRAM LOAN MAXIMUMS		
	ANNUAL LIMITS	
DEPENDENT UNDERGRADUATES	**Stafford**	**Total (Stafford & Unsubsidized Stafford)**
First-Year Student	$3,500	$5,500 [1]
Second-Year Student	$4,500	$6,500 [1]
Third-Year+ Student	$5,500	$7,500 [1]
INDEPENDENT UNDERGRADUATES [2,3]		
First-Year Student	$3,500	$9,500 [1]
Second-Year Student	$4,500	$10,500 [1]
Third-Year+ Student	$5,500	$12,500 [1]
GRADUATE STUDENTS[3]	$8,500	$20,500
	AGGREGATE LIMITS	
DEPENDENT UNDERGRADUATES	$23,000	$31,000 [1]
INDEPENDENT UNDERGRADUATES [2,3]	$23,000	$57,500 [1]
GRADUATE STUDENTS[3]	$65,500	$138,500

Note: As of July 1, 2010, all new loans are required to be disbursed through the Direct Loan program.

[1] ECASLA of 2008 increased Unsubsidized Stafford amounts by $2,000 annually for loans first disbursed on or after July 1, 2008. Aggregate amounts for dependent undergraduates increased by $8,000 and for independent undergraduates by $11,500. Graduate student levels did not change.

[2] And dependent undergraduates whose parents are unable to borrow under the PLUS program.

[3] Students who qualify for only a portion of the maximum Stafford Loan limit may borrow up to the remaining loan amount under the Unsubsidized Stafford Loan program, with the total amount borrowed limited to cost of attendance minus other aid. For example, a dependent first-year student who qualifies for a $2,000 Stafford Loan would be eligible for an additional $3,500 in Unsubsidized Stafford up to the total of $5,500. For students borrowing under both programs, the loan limits displayed above in the Total (Stafford and Unsubsidized Stafford) column apply.

For independent undergraduate students (or dependent undergraduate students whose parents cannot borrow under the PLUS program) and for graduate and professional students, the maximum a student can borrow during any academic year is: the combined Stafford and Unsubsidized Stafford loan limit shown under the column entitled, "Total (Stafford and Unsubsidized Stafford)." For example, a second-year independent student could borrow up to $4,500 under Stafford Loans and up to an additional $6,000 in Unsubsidized Stafford Loans for a total of $10,500. Under HERA, qualified graduate students are now eligible to borrow PLUS loans, where no limit applies other than cost of attendance. The aggregate loan limit for graduate students is determined by the Secretary of Education.

Lender Interest Rate

Since January 1, 2000, FFEL lenders earn a guaranteed rate of return, called the special allowance rate based on the average of bond equivalent rates for 3-month commercial paper during a quarter, plus a factor for loans in repayment, and a factor during in-school, grace, or deferment periods. Under current law, FFEL lenders receive the higher of the student interest rate or the special allowance rate. If the student rate is lower than the special allowance rate, the Government makes up the difference. Under HERA, for new loans made on or after April 1, 2006, when the student rate is higher than the special allowance rate, lenders are required to rebate the difference to the Government.

Under CCRAA, the lender special allowance formula factors cited above for most lenders were reduced by 55 basis points to 1.79 percent for loans in repayment and 1.19 percent for loans in an in-school, grace, or deferment period. Eligible non-profit lenders had their special allowance formula reduced by 40 basis points to 1.94 percent for loans in repayment and 1.34 percent for loans in an in-school, grace, or deferment period.

For PLUS loans disbursed on or after October 1, 2007, the special allowance formula regarding for-profit loan holders is based on the average of 3-month commercial paper for the quarter minus the applicable interest rate plus 1.79 percent. For non-profit loan holders, the formula is based on the average of 3-month commercial paper for the quarter minus the applicable interest rate plus 1.94 percent.

Special Allowance Related to Tax-Exempt Financing

Loans funded with the proceeds of tax-exempt securities originally issued before October 1, 1993, receive substantially higher special allowance payments than are currently paid on other types of loans. These loans have come to be known as “9.5 percent” loans for their higher special allowance treatment. The Taxpayer-Teacher Protection Act of 2004 temporarily limited the ability of loan holders to retain these higher benefits indefinitely by refinancing the underlying securities. These temporary provisions were in effect through December 30, 2005. The HERA made this change permanent and also eliminated “recycling” loans for most loan holders, thereby conforming these older loans to the special allowance rates paid on most other loans.

FFEL and Direct Loans

BORROWER INTEREST RATES BY ACADEMIC YEAR AND PROGRAM COMPONENT

Type of Loan	Loans made on or after July 1, 1995	Loans made on or after Oct. 1, 1998[1]	Loans made on or after July 1, 2006
Stafford and Unsubsidized Stafford	91-day Treasury bill rate +2.5%, during in-school, grace, or deferment periods, but T-bill +3.1% during repayment; capped at 8.25%	91-day Treasury bill rate +1.7%, during in-school, grace, or deferment periods, but T-bill +2.3% during repayment; not to exceed 8.25%	Fixed rate of 6.8%. Stafford loans reduced: 6.0%--2008-2009 5.6%--2009-2010 4.5%--2010-2011 3.4%--2011-2012 Resume 6.8% AY 2012
PLUS	Was 52-week Treasury bill rate +3.1%, not to exceed 9%. As of July 1, 2001 converted to 1-yr constant maturity +3.1%, not to exceed 9%	91-day Treasury bill rate +3.1%, not to exceed 9%	Fixed rate of 7.9% for Direct PLUS; increased to 8.5% under HERA for FFEL PLUS
FFEL Consolidation Loans[2]	Weighted average of the interest rates on the loans consolidated, rounded up to the nearest whole percent	Weighted average of the interest rates on the loans consolidated, rounded up to the nearest one-eighth of one percent, not to exceed 8.25%	Weighted average of the interest rates on the loans consolidated, rounded up to the nearest one-eighth of one percent, not to exceed 8.25%
Direct Consolidation Loans--Stafford and Unsubsidized Stafford	91-day Treasury bill rate +2.5%, during in-school, grace, or deferment periods, but T-bill +3.1% during repayment; capped at 8.25%	91-day T-bill rate +2.3%, not to exceed 8.25% for applications received 10-1-98 through 1-31-99; Weighted avg. basis, as above, thereafter	Weighted avg. basis, as above
Direct PLUS Consolidation	Was 52-week Treasury bill rate +3.1%, not to exceed 9%. As of July 1, 2001 converted to 1-yr constant maturity +3.1%, not to exceed 9%	Same as Direct Consolidation, above, for Stafford and Unsubsidized Stafford loans	Same as Direct Consolidation, above, for Stafford and Unsubsidized Stafford loans

[1] The Transportation Equity Act for the 21st Century included amendments to the HEA lowering interest rates for new Stafford, Unsubsidized Stafford, and PLUS loans made on or after July 1, 1998, and before October 1, 1998. These same rates were extended with passage of the HEA of 1998 to July 1, 2003, and further extended to July 1, 2006 through P.L 107-139. These rates are reflected in the chart above, under "Loans made on or after Oct. 1, 1998."

[2] The Emergency Student Loan Consolidation Act of 1997, which was included in the Department's FY 1998 appropriations act, temporarily changed a number of laws affecting Consolidation Loans. Under this Act, which expired September 30, 1998, the interest rate for FFEL Consolidation Loans made on or after November 13, 1997, was calculated based on the Treasury bill calculation--91 Day T-bill + 3.1%, not the weighted average of the interest rates on the loans consolidated. Student Aid and Fiscal Responsibility Act (SAFRA) of 2010—part of the Health Care and Education Reconciliation Act of 2010 (HCERA)—eliminated new FFEL Loans as of July 1, 2010.

STUDENT LOANS OVERVIEW

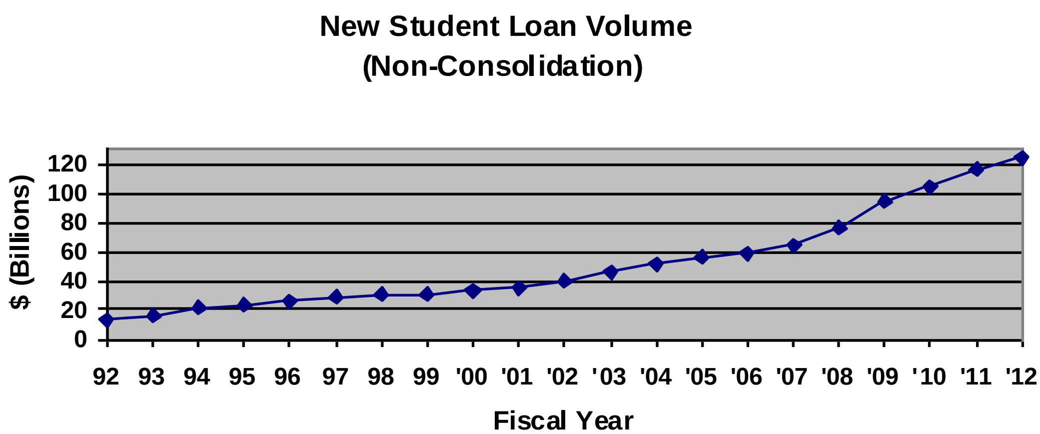
FFEL and Direct Loans

New Student Loan Volume

	2006	2007	2008	2009	2010	2011[1]	2012[1]
New Loan Volume ($M)							
FFEL	$46,689	$51,877	$57,962	$65,674	$19,618	0	0
Direct Loans	$12,176	$12,507	$17,851	$28,858	$84,703	$116,098	$124,318
Total	**$58,864**	**$64,384**	**$75,812**	**$94,532**	**$104,321**	**$116,098**	**$124,318**
Number of loans (000s)							
FFEL	10,851	11,592	12,720	14,264	5,220	0	0
Direct Loans	2,816	2,733	3,749	6,099	16,646	23,728	25,124
Total	**13,667**	**14,325**	**16,469**	**20,362**	**21,867**	**23,728**	**25,124**

[1] Estimated volume

Notes: Details may not sum to totals due to rounding. Loan volume and number of loans reflect net commitments, excluding Consolidation Loans. **Loan volume in FY 2010, 2011 and 2012** is based on passage of SAFRA—moving to 100 percent Direct Loans as of July 1, 2010.

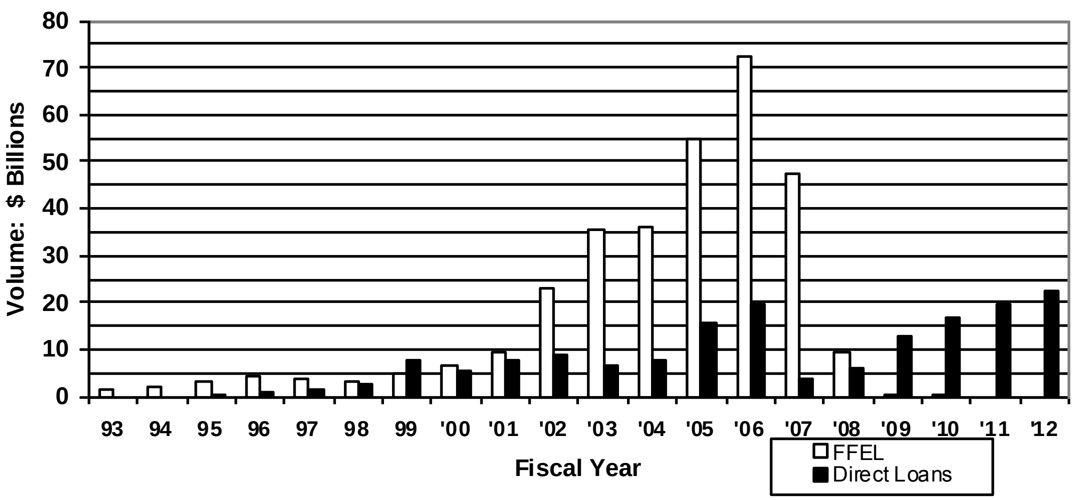


As shown by the historical graph above, new loan dollar volume has increased significantly since 1992 and is projected to continue increasing in 2011 and 2012. FY 2012 new loan volume of $124 billion represents a projected 7 percent increase over 2010. Stafford and Unsubsidized Stafford loans account for approximately 84 percent of this $124 billion in student loans. A variety of factors such as programmatic changes that increased eligibility, State aid, Federal aid, economic conditions, college costs, and enrollment demographics may all interact to affect new loan demand patterns.

FFEL and Direct Loans

Consolidation Loans. A favorable interest rate environment and highly competitive marketing resulted in a dramatic surge in FFEL Consolidation Loan volume from FY 2001 to FY 2006 where volume grew from $9.4 billion to a record high $72 billion. During this same period, Direct Loan Consolidation Loan volume also increased significantly, growing from $7.8 billion to over $19 billion. Borrowers in both programs sought to lock-in lower interest rates through consolidation, prior to the annual variable in-repayment interest rate jumping from 5.3 percent to 7.14 percent as of July 1, 2006. FFEL Consolidation Loan volume decreased substantially in FY 2007 and FY 2008, however, reflecting a saturated marketplace, an end to "in-school consolidation," and the statutory change to fixed borrower interest rates. Consolidation volume in Direct Loans also decreased substantially in FY 2007, but has been increasing since then, with higher demand estimated for FY 2011 and FY 2012. Due to the passage of SAFRA, as of July, 1, 2010, no new FFEL Consolidation loans have been made.

Consolidation Loan Volume



Total net FFEL and Direct Loan subsidy costs—for all new loans and reestimates for existing loans—for the past 5 fiscal years are shown below:

($000s)

	FFEL	Direct Loans
2007	$3,690,487	$3,982,176
2008	-1,977,384	4,075,330
2009	-32,801,648	-5,709,053
2010	-9,104,047	-11,215,767
2011 CR	-24,492,933	-26,783,518

Note: Subsidy costs include net reestimates (combined upward and downward) of prior cohorts and net modifications, which may produce significant annual fluctuations. FFEL totals reflect ECASLA programs in 2009, 2010, and 2011.

FY 2012 BUDGET REQUEST

The Administration proposes several student loan policies in this FY 2012 budget request designed to better target subsidies and facilitate savings for Pell grant scholarships for needy undergraduates. Highlights of the key proposals appear below.

Eliminate Interest Subsidies to Graduate and Professional Students

Interest payments for Subsidized Stafford loans are paid by the Government while a student is in school and during grace and deferment periods. However, under the Administration's proposed FY 2012 budget policy, only undergraduate students would continue to receive this in-school interest subsidy. Graduate and professional students would no longer be eligible to receive subsidized interest payments while in school. Interest subsidies would be targeted at financially needy undergraduate students who may struggle to repay their loans.

Graduate and professional students generally earn higher incomes over their careers, reducing their need for interest subsidies. Eligibility for the interest subsidy is based on "ability-to-pay" at the time of enrollment, but the borrower realizes the benefit later -- typically years later -- in the form of lower loan payments after leaving school. Average median incomes are highest among those who have completed graduate studies, and thus, graduate borrowers are likely to be much more able to repay student loan debt.

A 2002 Census Bureau report estimated that over a typical 40-year working life from ages 25 to 64, those with only a high school degree could expect on average to earn $1.2 million compared to $2.1 million for someone with a bachelor's degree, $2.5 million for a master's degree, $3.4 million for a doctoral degree, and $4.4 million for a professional degree. An April, 2010 report released by the Census Bureau shows that average annual earnings in 2008 for those with advanced degrees totaled $83,144 compared to $58,613 for those with a bachelor's degree only. In addition, many graduate students are eligible for research grants, fellowships, and other stipends during their graduate studies that help offset their loan debt.

Graduate and professional students are also able to take advantage of educational tax benefits, such as the Lifetime Learning tax credit as well as the availability of various manageable repayment plan options, such as Income Contingent Repayment (ICR) and the Income-Based Repayment (IBR) plan, recently passed with more favorable features under SAFRA.

Government subsidies should be targeted to the neediest individuals, especially during difficult fiscal times. Due to nonspecific targeting, the President's Commission on Fiscal Responsibility recommended eliminating the in-school subsidy. To better target subsidies, the focus has shifted to relieving debt burden upon graduation among students who enter public service and other lower paying professions. Savings resulting from the proposed elimination of interest subsidies to graduate and professional students will help students with the greatest need—those receiving Pell Grants—finance their education.

Student Loan Conversion and Easier Loan Repayment

The current repayment process often involves borrowers making payments to multiple student loan holders, and puts them at greater risk for default due to this fact. In an effort to assist these borrowers and simplify their repayment process, the Administration proposes to allow a one-time 9 month opportunity from January 1, 2012 through September 30, 2012, for borrowers whose loans are split between Department contractors and FFEL lenders to convert existing FFEL debt and move it to the Department of Education. Terms and conditions of the borrower's loans would not change, and they would not have to consolidate their loans in order to convert. Borrowers have the ability to choose whether to convert, but if they do choose to participate, they will receive a benefit of up to 2 percent of their loan balance.

Converted debt would be recorded in a Student Loan Acquisition Account, along with FFEL loans previously purchased from private loan holders under the expired ECASLA program. This 2012 Budget proposal is a borrower-based option rather than an offer to purchase loans made by private loan holders. Private loan holders would be paid 100 percent of the outstanding principal and interest balance on any loans converted. The proposed policy provides for a more efficient overall loan repayment system in future years by centralizing and reducing servicing costs to the Federal Government and enabling those borrowers after conversion to stay with a single loan servicer.

Perkins Loan Program Expansion

Current annual loan limits in the Federal student loan programs are inadequate for some students. The 50-year-old Perkins Loan program has served as a supplementary source of low-interest loans, but the program is too small and its current structure is inefficient and inequitable: loans are serviced directly by institutions at considerable cost, and students at less wealthy institutions often have little or no access to the program.

The Administration supports reformulating the current Perkins Loan program to a new mandatory Perkins Unsubsidized Loan program providing up to $8.5 billion in new loan volume annually and reaching over 3 million students at as many as 2,700 additional postsecondary education institutions when fully implemented. Like current Perkins loans, colleges would allocate these loans among their students and schools would continue to have discretion regarding student eligibility. However, instead of being serviced by the colleges, loans would be serviced by the Department of Education along with other Federal loans.

Under current law, schools are required to start returning Perkins assets to the Government—primarily student loan repayments—beginning July 1, 2016. Under the proposed new Perkins program, schools would be required to return assets beginning July 1, 2012, at the start of the new program.

The Administration proposes an interest rate consistent with Unsubsidized Stafford loans at 6.8 percent. Loan amounts for both undergraduates and graduates would remain the same as in the current Perkins program. To increase loan availability, interest on the loans would accrue while students are in school. As current Perkins Loan borrowers repay their loans, schools will remit the Federal share of those payments to the Department of Education. Schools will retain their own share of the revolving funds, as well as amounts sufficient to cover the costs of various Perkins Loan forgiveness provisions.

The FY 2012 Budget Request for student loans is best understood in the context of the Administration's proposals for the student aid programs as a whole. Accordingly, other program-specific funding information and policy proposals are discussed further in the Student Aid Overview, beginning on page O-1 and in the Student Financial Assistance account, beginning on page P-1.

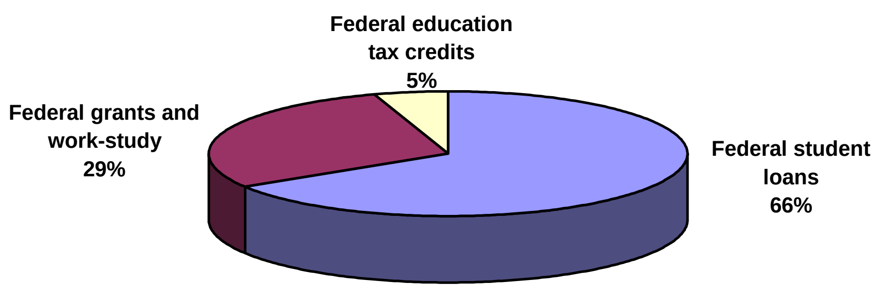
STUDENT LOANS OVERVIEW

FFEL and Direct Loans

The Role of Student Loans

A major goal of the Federal student aid program is to assist families in meeting college costs. Federal student loans play a key role here and constitute the largest component of the Federal postsecondary aid system, accounting for 66 percent of estimated Federal new student aid available in academic year (AY) 2009-2010, based on Table 1 in the "College Board Trends in Student Aid 2010" online report (Student Aid Trends). http://trends.collegeboard.org/student_aid/ The chart below shows the key areas of Federal postsecondary aid available in AY 2009-2010.

Federal Postsecondary Assistance- AY 2009-2010



According to this 2010 College Board report, the Federal Government accounts for almost 71 percent of all postsecondary education financial aid, while State, institutional, and private sources provide about 29 percent. In the Student Aid Trends report, Table 1 shows that total Federal aid—including postsecondary education tax credits—increased by 136 percent in constant dollars over a period of 10 academic years (1999-00 to 2009-10). Federal loans have played a significant role over this period, growing by some 128 percent in constant dollars while Pell Grant funding, which is specifically targeted to low-income students, increased by 203 percent during this 10-year period—including a major increase of 58 percent in Pell aid occurring in the most recent 2009-10 academic year.

Based on cost of attendance tables (Table 5a) in the 2010 "College Board Trends in College Pricing" (College Pricing) report, the average total cost of attendance, including tuition and fees and room and board (in current dollars) at a 4-year private college increased from $22,240 in 2000-2001 to $36,993 in 2010-2011, representing a 66 percent increase over this 10-year period. Over the same 10-year period, the average total cost at a 4-year public college increased 91 percent, from $8,439 to $16,140. Table 5 indicates that in constant 2010 dollars, after adjusting for inflation, private 4-year college costs increased approximately 32 percent and public 4-year college costs increased about 52 percent during this 10-year period.

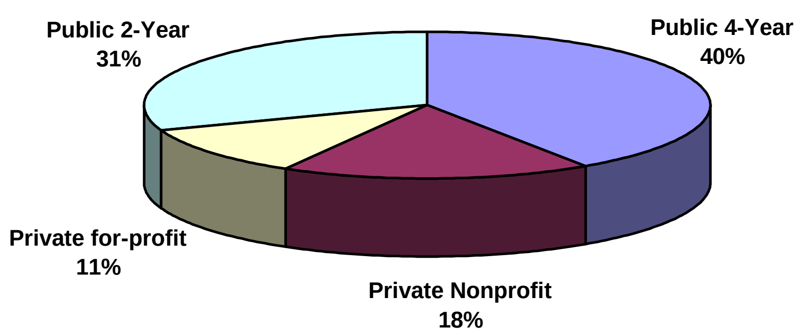
According to the National Center for Education Statistics (NCES) 2008 report entitled: "Trends in Undergraduate Borrowing II: Federal Student Loans in 1995-96, 1999-2000, and 2003-04", the demand for both subsidized and unsubsidized Stafford loans continues to grow. This report analyzed several NPSAS data sets over time and found that in 1995-96, 25 percent of all

FFEL and Direct Loans

undergraduates received either a subsidized or an unsubsidized Stafford loan, or both. By 2003-04, this measure had grown to 33 percent of all undergraduates and recent data from the 2008 NPSAS shows it increasing to 34.5 percent. According to the 2008 NPSAS, the school group having the highest percentage of borrowers by far attend private-for-profit (2-year) schools, where over 94 percent received some type of Stafford loan in 2007-08. The group with the lowest borrowing percentage attends 2-year public schools, where approximately 10 percent borrowed some type of Stafford loan.

According to the College Board's on-line Student Aid Trends, approximately 40 percent of all undergraduates attended 4-year public institutions in 2008, while 18 percent were enrolled at private nonprofit institutions—which are almost entirely 4-year institutions. Some 31 percent of all undergraduates in 2008 were enrolled at 2-year public colleges and 11 percent were enrolled at private "for-profit" schools. This data is based on full time equivalents (FTE) which counts a part-time student as one-third of a full-time student. This enrollment distribution, as shown below, helps place into perspective attendance patterns at postsecondary institutions.

College Board: Fall 2008 Undergraduate Enrollment (%FTE)



Student Borrowing

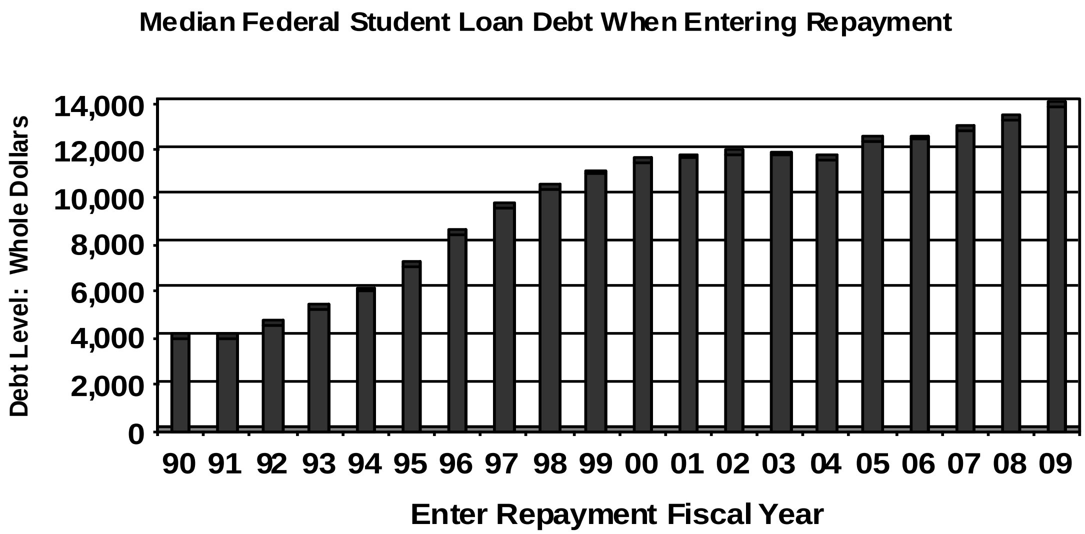
Students rely on the Federal loan programs to help close the gap between what their families can afford to pay ("estimated family contribution") and the cost of attendance (including tuition, fees, and room and board). Based on the latest 2008 NPSAS, slightly over 60 percent of seniors who graduated in 2007-2008 from a 4-year institution reported borrowing a Federal loan at some point in their undergraduate studies. Data available from the 2008 NPSAS shows that for those students who borrowed, the **average cumulative Stafford Loan debt** (including subsidized and unsubsidized loans) owed by "**graduating seniors**" in 2007-2008 at 4-year undergraduate schools was $17,063.

As shown in the graph below, data from the National Student Loan Data System (NSLDS) reveals that the **median** level of cumulative Federal borrowing (i.e., Stafford and Unsubsidized Stafford Loans) per student for **all borrowers across all educational levels** has increased substantially since 1990, rising from about $3,943 to $11,510 in 2000 and $13,856 in 2009. Note that the **mean** level of cumulative Federal student loan debt since 1990 increased from

FFEL and Direct Loans

$5,577 to $17,251 in 2000 and to $21,665 in 2009. The higher levels reflected by the **mean** are attributable primarily to graduate and professional students, who borrow heavily, weighting the overall average.

It is noteworthy that the median Federal debt of proprietary school students obtaining an Associate's degree in 2008 was about $14,045, almost double the $7,125 level of students at private not-for-profit schools. Similarly, proprietary school students completing a Bachelor's program carried median debt levels of $23,874, compared to $11,580 for students at private not-for-profit schools, and $4,968 for students who completed their degree at public institutions. Thus, debt levels may vary considerably by institutional sector and credential, which would not be evident if looking only at an overall composite figure.



Program Output Measures on the following pages show program information for FFEL and FDSL program loans for fiscal years 2010 and 2011 consistent with requested funding levels and proposed policies for 2012.

PROGRAM OUTPUT MEASURES

FFEL Program Loans	2010	2011 CR	2012
Stafford Loans:			
Loan volume (million $)[1]	$7,815	0	0
Number of loans (000s)	2,438	0	0
Average loan (whole $)	$3,205	0	0
Subsidy rate[2]	10.49%	0	0
Unsubsidized Stafford Loans:			
Loan volume (million $)[1]	$9,810	0	0
Number of loans (000s)	2,547	0	0
Average loan (whole $)	$3,852	0	0
Subsidy rate[2]	-6.24%	0	0
PLUS Loans:			
Loan volume (million $)[1]	$1,993	0	0
Number of loans (000s)	235	0	0
Average loan (whole $)	$8,484	0	0
Subsidy rate[2]	-8.79%	0	0
Consolidation Loans:			
Loan volume (million $)[1]	$79	0	0
Number of loans (000s)	2	0	0
Average loan (whole $)	$33,431	0	0
Subsidy rate[2]	-3.07%	0	0
Subsidy Net Reestimate(million $)[3]	-$7,403	-$24,493	0
Net Modification(million $)[4]			-$409
Total FFEL Program Loans:			
Loan volume (million $)[1]	$19,697	0	0
Number of loans (000s)	5,223	0	0
Average loan (whole $)	$3,771	0	0
Net Subsidy cost (million $)[3]	-$1,701	0	-1,700
Subsidy rate[2]	-0.22%	0	0
Outstanding (billion $):			
Total FFEL Loans Outstanding	$416	$377	$339
Total Liquidating Loans Outstanding	8	7	7
Total Outstanding[5]	424	384	346

NOTES: Details may not sum due to rounding.

[1] Reflects net commitments (disbursements), which are less than amounts committed (e.g., due to loan cancellations).

[2] This rate generally reflects the Federal cost per new loan dollar. When negative, this rate indicates a net gain to the Federal Government. Reestimates and modifications are not reflected in the subsidy rate.

[3] Subsidy amounts are estimated on a net present value basis. FY 2012 reflects savings due to proposed loan conversion policy. Net reestimates reflect both upward and downward reestimates— consistent with data on page S-1.

[4] Reflects impact of proposed policy on prior FFEL cohorts for loan conversions to the Department.

[5] Reflects total FFEL and Liquidating account loan principal (including consolidations) as end of year estimate.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Direct Loans	2010	2011 CR	2012
Direct Stafford Loans:			
Loan volume (million $)[1]	$32,744	$44,509	$38,488
Number of loans (000s)	7,756	10,992	10,375
Average loan (whole $)	$4,222	$4,049	$3,710
Subsidy rate[2]	8.07%	5.25%	3.20%
Direct Unsubsidized Stafford Loans:			
Loan volume (million $)[1]	$37,451	$52,726	$65,442
Number of loans (000s)	7,754	11,196	13,132
Average loan (whole $)	$4,830	$4,709	$4,984
Subsidy rate[2]	-17.66%	-25.89%	-26.18%
Direct PLUS Loans:			
Loan volume (million $)[1]	$14,508	$18,863	$20,388
Number of loans (000s)	1,137	1,540	1,617
Average loan (whole $)	$12,762	$12,251	$12,610
Subsidy rate[2]	-22.28%	-30.32%	-30.20%
Direct Consolidation Loans:			
Loan volume (million $)[1]	$17,079	$19,538	$22,717
Number of loans (000s)	492	538	609
Average loan (whole $)	$34,745	$36,338	$37,323
Subsidy rate[2]	-3.12%	-9.97%	-10.96%
Subsidy Net Reestimate (million $)[3]	-$2,583	-$5,689	0
Total Direct Loans:			
Loan volume (million $)[1]	$101,782	$135,635	$147,035
Number of loans (000s)	17,138	24,266	25,733
Average loan (whole $)	$5,939	$5,590	$5,714
Net Subsidy cost (million $)[3]	-$8,633	-$21,094	-$27,223
Subsidy rate[2]	-7.82%	-14.08%	-16.77%
Outstanding (billion $):			
Total Direct Loans Outstanding[4]	$221	$338	$461

NOTES: Details may not sum due to rounding.

[1] Reflects net commitments (disbursements), which are less than amounts committed (e.g. due to loan cancellations).

[2] This rate generally reflects the Federal cost per new loan dollar. When negative, this rate indicates a net gain to the Federal Government. Reestimates and modifications are not reflected in the subsidy rate.

[3] Subsidy amounts are estimated on a net present value basis. Negative subsidy results in a net gain to the Federal Government. Net reestimates reflect both upward and downward reestimates—and are consistent with data on page S-1.

[4] Reflects total Direct Loan principal (including consolidations) as end-of-year estimate.

LIQUIDATING ACCOUNT

The cost of FFEL student loan commitments made prior to fiscal year 1992 (the start of credit reform) is appropriated annually under indefinite authority in a Liquidating Account on a cash basis. This account does not issue any new loans, nor estimate loan-lifetime costs by cohort, and does not use a net present value calculation. The Liquidating Account pays pre-1992 student loan activities, such as loan default payments, special allowance payments, and interest benefits. Consequently, as default and in-school interest costs on these older loans decline over time, and recoveries on defaulted loans continue to be collected, annual revenues—also referred to as offsetting collections—will more than offset annual costs, resulting in negative program costs for which no new budget authority is needed. Total net outlays are estimated to be -$221 million in FY 2011 and -$148 million in FY 2012. This portion of projected offsetting collections that exceeds program costs in each of these years is returned to the U.S. Treasury as a capital transfer resulting in net budget savings. However, it appears that as collections decrease at a faster rate than obligations, at some point during the budget window the account will require an appropriation to cover incurred costs, primarily default claims.

FEDERAL STUDENT LOAN RESERVE FUND

The Higher Education Amendments of 1998 clarified that reserve money held by public and non-profit guaranty agencies participating in the Federal Family Education Loan (FFEL) program are Federal property. These funds are used to pay default claims from FFEL lenders as well as other claims such as those related to death, disability, bankruptcy, and closed schools. The fund, commonly referred to as the Reserve Fund, also pays fees to support successful guaranty agency efforts to avert defaults. Federal payments reimbursing agencies for default claim payments are paid into these funds.

The FY 2002 President's Budget clarified that the Reserve Fund should be included on-budget. As required by law, the Reserve Fund returned $1.085 billion to the Treasury in FY 2002 under a scheduled recall of $1 billion in reserves mandated by the 1997 Balanced Budget Act, and an additional $85 million in reserves required to be returned by the Higher Education Amendments of 1998.

The Reserve Fund began FY 2010 with a balance of about $2.4 billion. The Fund's major revenues are primarily reinsurance payments from the Federal Government and its major expenses are insurance payments to lenders. These and other cash flows, resulted in an ending balance in FY 2010 of about $3.0 billion that becomes the Reserve Fund starting position for FY 2011. Under SAFRA, which eliminated new FFEL loans starting July 1, 2010, the fund ceased to collect revenues related to new originations, which will lead to reduced annual account balances in the future.

PROGRAM OUTCOMES

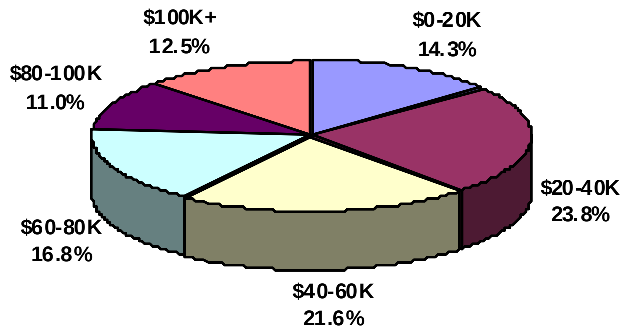
Distribution of Undergraduate Stafford Loan Borrowers by Family Income Category. The Stafford Loan, where the Federal Government pays the interest while the student is in an in-school, grace, or deferment period, is a need-based loan relied on predominantly by low- and middle-income families. Students across many income levels may be eligible for Stafford Loans depending on a number of financial considerations. Unsubsidized Stafford loans complement Stafford, but are not need-based.

STUDENT LOANS OVERVIEW

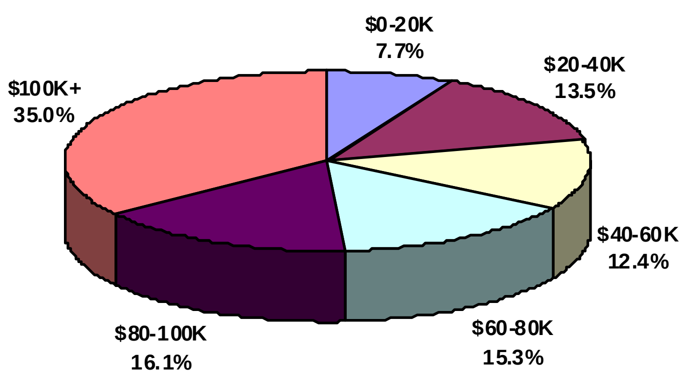
FFEL and Direct Loans

The following charts reflect the percentage of dependent (page S-22) and independent (page S-23) undergraduate Stafford Loan and Unsubsidized Stafford Loan borrowers at various family adjusted gross income levels according to the most recent NPSAS: 2008 data. Notably, about 60 percent of Stafford dependent borrowers are students from families with under $60,000 in family income while over 66 percent of the Unsubsidized Stafford dependent borrowers are students from families with over $60,000 in family income.

Undergraduate Dependent Stafford Loan Borrower Distribution--Source: NPSAS: 2008

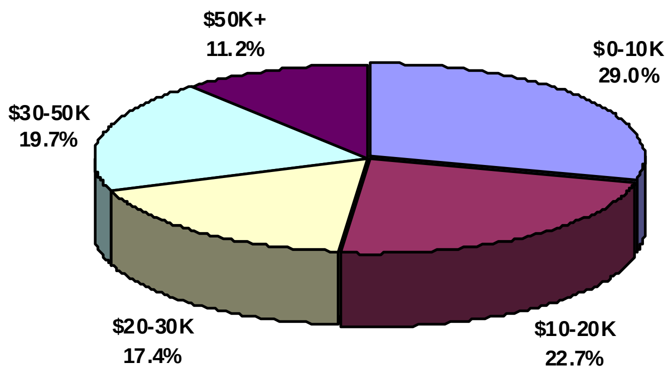


Undergraduate Dependent Unsubsidized Stafford Loan Borrower Distribution--Source: NPSAS: 2008

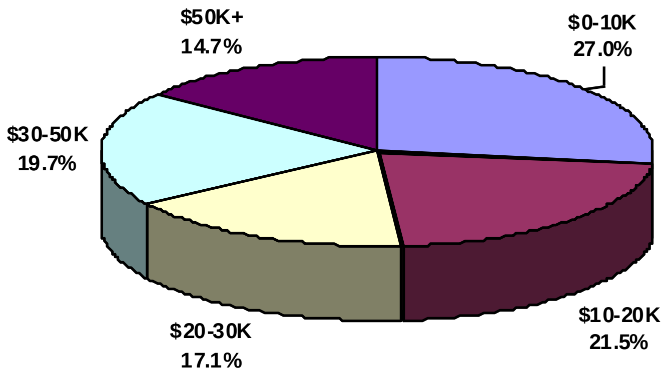


FFEL and Direct Loans

Undergraduate Independent Stafford Loan Borrower Distribution--Source: NPSAS: 2008



Undergraduate Independent Unsubsidized Stafford Loan Borrower Distribution--Source: NPSAS: 2008



FFEL and Direct Loans

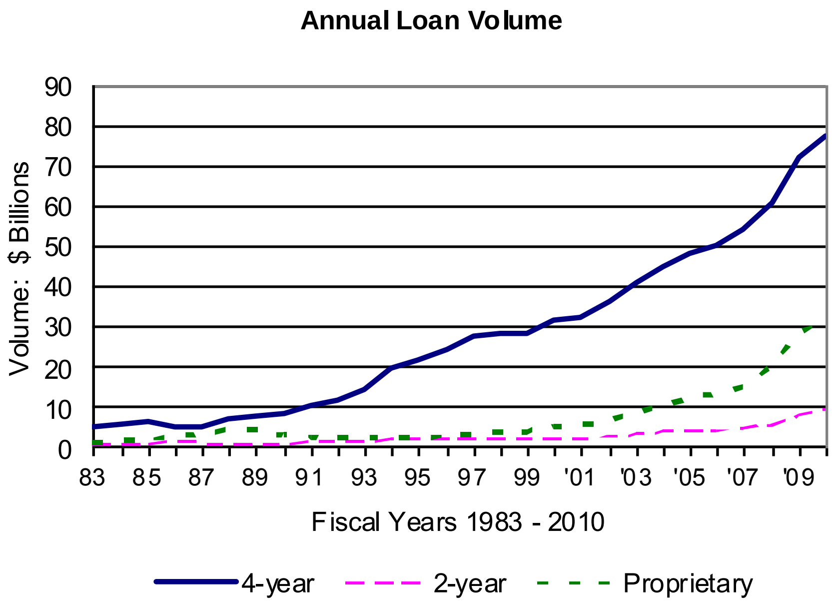
LOAN VOLUME

Institutional Sector Trends. Based on FY 2010 NSLDS and related data, approximately 41 percent of all Direct Loan dollar volume occurred at 4-year public institutions. Proprietary institutions, at 48 percent of dollar volume, accounted for the largest sector of FFEL borrowing.

Distribution of New Loan Volume Dollars by Institution Within FFEL and Direct Loans

FY 2010	4-Yr. Public	4-Yr. Private	2-Yr. Public	2-Yr. Private	Proprietary
FFEL	14.7%	26.1%	10.3%	0.5%	48.4%
Direct Loans	40.9%	30.6%	7.1%	0.2%	21.2%

The following graph depicts annual gross commitment loan volume trends by 4-year, 2-year, and proprietary school sectors. (Direct Loan volume data is included beginning with program inception in FY 1994.)



- Loan volume at 4-year institutions continues to show substantial growth, increasing from $5 billion in FY 1983, to $77.2 billion in FY 2010, representing 65 percent of all gross commitment loan volume in FY 2010. Growth is split fairly evenly between public and private institutions.

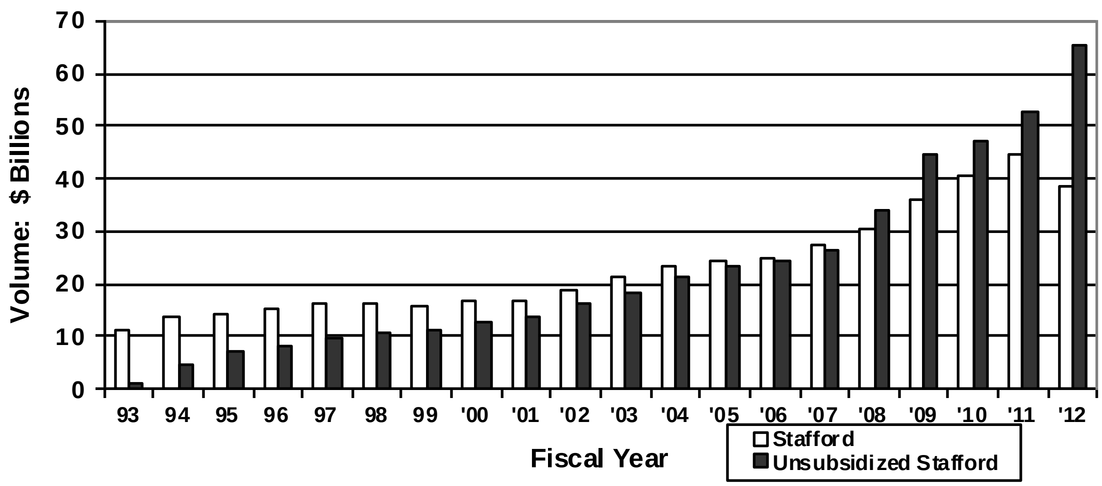
- Loan volume at proprietary institutions grew tremendously at almost 58 percent between 2008 and 2010, possibly attributable to difficult economic and employment conditions. At over $31 billion in FY 2010, proprietary school loan volume represents 26.6 percent of total volume, compared to 13.4 percent in FY 2000.

FFEL and Direct Loans

- Loan volume at 2-year institutions remained steady during the early 1990's, possibly due to relative lower overall cost of attendance. However, volume grew significantly since then, from $1.9 billion in FY 2000 to over $9 billion in FY 2010. Relative to the other segments, volume at 2-year schools is comparatively small, accounting for only 8 percent of all gross commitment loan volume in FY 2010.

A substantial portion of loan volume growth in the last decade is attributable to the Unsubsidized Stafford Loan program, where students may borrow up to the cost of attendance and within prescribed loan limits, regardless of financial need. Unsubsidized Stafford Loans have enjoyed strong popularity from inception, as shown in the following graph.

Stafford Loan and Unsubsidized Stafford Loan Volume



According to the NCES 2008 study on Trends in Undergraduate Borrowing cited earlier, "an increasing proportion of both dependent and independent student borrowers at all income levels took out unsubsidized loans either alone or in addition to their subsidized loans." The report also cites the fact that in many cases, the Unsubsidized Stafford Loan helps to supplement the Subsidized Stafford Loan. For example, in 1995-96 about 57 percent of "all dependent student borrowers took out the maximum amount allowed in subsidized and unsubsidized Stafford loans combined." By 2003-04, this figure had grown to 73 percent.

PROGRAM PERFORMANCE INFORMATION

Performance Measures

This section presents selected program performance information, including, for example, GPRA goals, objectives; measures; and performance targets and data; and an assessment of the progress made toward achieving program results. Achievement of program results is based on the cumulative effect of the resources provided in previous years and those requested in FY 2012 and future years, and the resources and efforts invested by those served by this program. The student loan programs and other Federal student financial aid programs share a common goal of helping remove financial barriers to postsecondary education. Because these programs rely on the same performance measures, strategies, and program improvement activities, such measures are discussed in the **Student Aid Overview**, section O, and are not repeated here.

Over the years, the student loan programs have been considered adequate when assessed by the Office of Management and Budget (OMB). The student loan programs, which were authorized as entitlement programs in order to meet student loan demand, have a clear program purpose of helping ensure access to postsecondary education by providing families with needed resources that they would be unlikely to obtain elsewhere. The Federal Government's role here is critical since most private lenders would not be providing loans to students with little or no work experience or credit history. In FY 2010, these programs, excluding Consolidations, provided over $104 billion in new loan assistance to some 10.2 million qualified borrowers.

Based on NPSAS:2008, almost 47 percent of all undergraduates received some type of Federal Title IV financial aid in 2007-08 and about 35 percent borrowed a Federal student loan. Of those undergraduates in 2007-08 who borrowed a Federal loan, the average amount borrowed was $5,100. In addition, approximately 40 percent of graduate students borrowed Stafford Loans with the average amount borrowed about $15,600. Of all professional degree candidates, approximately 76 percent borrowed Stafford Loans, averaging $22,700 in 2007-08. These statistics provide a key indication of the significant role that the Federal loan programs play in providing access and reducing financial barriers to postsecondary education for a variety of postsecondary students.

Loan Defaults. One key measure related to the entire student loan program concerns default management. The national student loan "cohort default rate" provides a measure of **borrower** default behavior in the first 3 years after entering repayment. This national cohort default rate measure was first established by the Omnibus Budget Reconciliation Act of 1990 (OBRA) to exclude "high-default" institutions from participation in the loan programs. Under current law, these institutions are excluded—for at least 3 years— if they hit or exceed a 25 percent statutory default rate threshold for 3 consecutive years.

The Higher Education Opportunity Act of 2008 (HEOA) amended the 25 percent statutory default rate threshold to 30 percent for fiscal year 2012 and beyond. Also, HEOA amended the window for determining if a borrower would be included in the cohort default rate from the first 2 years after entering repayment to the first 3 years after entering repayment. This is effective for fiscal year 2009 and beyond. The HEOA provides for a transition period during which no institutions would be sanctioned based on the new 3-year rate until there are three consecutive years of such calculations. During this transition time, any sanctions will be driven by calculations made according to pre-HEOA criteria.

FFEL and Direct Loans

The Department recently issued a Notice of Proposed Rulemaking proposing to tie eligibility for Federal aid at “for-profit career colleges” to the school’s success in having their graduates obtain “gainful employment” in recognized occupations. An eligible program would have to have at least 45 percent of their former students paying down the principal on their Federal loans, or meet a debt-to-earnings ratio of less than 20 percent of discretionary income or 8 percent of total income. These rules seek to limit high debt burden among proprietary school students and to ensure that for-profit schools are using Federal aid dollars effectively, given that such schools are allowed by law to derive 90 percent of their revenue from Federal funds.

The NPRM, published July 26, 2010 in the Federal Register, shows on page 43652 that students who graduated from public or private institutions in 2007-2008 and entered repayment in 2008 defaulted at a rate of less than 5 percent in the next year whereas for proprietary students it was approximately 18 percent.

The national “cohort default rate” (as shown below) measures **borrower** default behavior in just the first 2 years after entering repayment—any defaults occurring outside this statutory period are not incorporated into the default rate for that particular cohort. As a result, this index does not reflect the “lifetime **dollar** default rates” that are used in budget formulation to project future default costs. The lifetime rates account for defaults over the entire life of the loan and are significantly higher than the national cohort rates. Thus, the national cohort default rate should be viewed in context with other budget tools.