Department of Education

STUDENT LOANS OVERVIEW

Fiscal Year 2011 Budget Request

CONTENTS

(in thousands of dollars) Office, Account, Program and Activity	Category Code	2009 Appropriation	2010 Appropriation	2011 President's Budget	Change from 2010 Appropriation Amount	Change from 2010 Appropriation Percent
Federal Direct Student Loans Program Account (HEA IV-D)						
1. New loan subsidies (HEA IV-D)	M	0	0	0	0	---
2. New net loan subsidy (non-add)	M	(5,828,418)	(7,581,110)	(10,404,340)	(2,823,230)	37.2%
3. Upward reestimate of existing loans	M	1,385,617	3,481,859	0	(3,481,859)	-100.0%
4. Downward reestimate of existing loans (non-add)	M	(1,266,252)	(6,065,089)	0	6,065,089	-100.0%
5. Net reestimate of existing loans (non-add)	M	119,364	(2,583,230)	0	2,583,230	-100.0%
6. Modification of existing loans	M	0	1,691,760	0	(1,691,760)	-100.0%
Total, Federal Direct Student Loans Program Account		1,385,617	5,173,619	0	(5,173,619)	-100.0%
Total, new net loan subsidies and net reestimate/modification (non-add)		(5,709,054)	(8,472,580)	(10,404,340)	(1,931,760)	22.8%
Total	M	1,385,617	5,173,619	0	(5,173,619)	-100.0%
Outlays		*1,406,154*	*5,188,330*	*3,397*	*(5,184,933)*	*-99.9%*
Federal administration	*M*	*20,537*	*14,711*	*3,397*	*(11,314)*	*-76.9%*
Loan program--mandatory	*M*	*1,385,617*	*5,173,619*	*0*	*(5,173,619)*	*-100.0%*
Federal Family Education Loans Program Account (HEA IV-B) [1,2,3]						
1. New loan subsidies (HEA IV-B)	M	0	0	0	0	—
2. New net loan subsidies (non-add)	M	(14,208,513)	(1,701,415)	0	1,701,415	-100.0%
3. Upward reestimate of existing loans	M	1,061,861	4,274,364	0	(4,274,364)	-100.0%
4. Downward reestimate of existing loans (non-add)	M	(17,014,575)	(11,676,997)	0	11,676,997	-100.0%
5. Net reestimate of existing loans (non-add)	M	(15,952,714)	(7,402,632)	0	7,402,632	-100.0%
6. Upward modification of existing loans	M	0	0	0	0	---
7. Downward modification of existing loans (non-add)	M	(2,640,420)	0	0	0	---
8. Net modification of existing loans (non-add)	M	(2,640,420)	0	0	0	---
Total, FFEL Program Account	M	1,061,861	4,274,364	0	(4,274,364)	-100.0%
Total, new net loan subsidies and net reestimate/modification (non-add)		(32,801,647)	(9,104,047)	0	9,104,047	-100.0%
Outlays	*M*	*1,062,000*	*4,274,000*	*0*	*(4,274,000)*	*-100.0%*
Federal Family Education Loans Liquidating Account (HEA IV-B) [3]						
1. Pre-1992 student loans	M	(369,977)	(456,132)	(407,033)	49,099	-10.8%
Outlays	*M*	*(535,000)*	*(456,000)*	*(407,000)*	*49,000*	*-10.7%*
Federal Student Loan Reserve Fund Outlays [3]	*M*	*(751,000)*	*(79,000)*	*301,000*	*380,000*	*-481.0%*
Federal Perkins Loan Program [3,4]						
1. New loans subsidies (proposed legislation)	M	0	0	0	0	---
2. New net loan subsidies (non-add)	M	0	0	(101,496)	(101,496)	---
Total, Federal Perkins loan program amount	M	0	0	0	0	---
Outlays	*M*	*0*	*0*	*0*	*0*	—

NOTE: Category Codes are as follows: D = discretionary program; M = mandatory program.

[1] *Includes programs authorized under the Ensuring Continued Access to Student Loans Act of 2008.*

[2] *In FY 2010, amounts reflect proposed policy shifting to 100 percent Direct Loans in the fourth quarter of FY 2010.*

[3] *Negative amounts are deposited in designated receipt accounts and are shown in General Fund Receipts.*

[4] *The FY 2011 Budget proposes to restructure Federal Perkins Loans as a mandatory credit program; funds supporting this program under current law are shown in fiscal years 2009 and 2010 in the Student Financial Assistance account.*

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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:	2010	2011	Change
Direct Loans New Loan Subsidy[2]	-$7,581,110	-$10,404,340	-$2,823,230
Direct Loans Net Reestimate[3]	-2,583,230	0	+2,583,230
Direct Loans Net Modification[4]	1,691,760	0	-1,691,760
Direct Loans Total Net Subsidy[5]	-8,472,580	-10,404,340	-1,931,760
FFEL New Loan Subsidy[2]	-1,701,415	0	+1,701,415
FFEL Net Reestimate[3]	-7,402,632	0	+7,402,632
FFEL Net Modification	0	0	0
FFEL Total Net Subsidy[5]	-9,104,047	0	+9,104,047

[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.

[2] Federal administration funds associated with the FFEL and Direct Loan accounts are shown in **Student Aid Administration**, beginning on page BB-1. New loan subsidy reflects the estimated cost of loans for the 2009 and 2010 cohorts. The FFEL amounts include "loan purchase" programs authorized under ECASLA as well as the guaranteed FFEL program. New loan subsidies for the direct ECASLA programs are -$11,804,073 thousand in FY 2009 and -$1,609,581 thousand in FY 2010. Under budgetary accounting rules, the budget program account does not show budget authority if it is negative. Negative subsidy is reported (as negative outlays) to a negative subsidy receipt account. However, for informational purposes, the amounts shown above do reflect estimated negative budget authority.

[3] Reestimates are performed annually. The large FFEL net downward reestimate reflects a substantial decrease in the discount rate, and greatly reduced Consolidation loan volume due to legislative changes and a saturated marketplace.

[4] The net upward modification for Direct Loans in 2010 reflects costs associated with older loans impacted by the proposed policy to expand the Income Based Repayment plan in the 2011 budget request.

[5] 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 T-1.

PROGRAM DESCRIPTION

The Federal Family Education Loan (FFEL) and William D. Ford Federal Direct Loan (Direct Loan) programs provide students and their families with loans to help meet postsecondary education costs. Non-consolidation FFEL and Direct Loan (net commitment) volume which reflects new student loan demand, continues a strong expansion, more than tripling from

$30 billion in FY 1999 to over $96 billion in FY 2009.

In FY 2009, these loan programs accounted for about 77 percent of all new postsecondary aid available from the Department of Education. Consolidation Loan volume, which represents loans issued to pay off existing student loans, grew considerably between FY 1994 and FY 2006—especially in the FFEL program—due to favorable interest rates and aggressive marketing. Consolidation volume reached an all-time high in 2006 of almost $92 billion of which 72.5 billion were FFEL consolidations. Since then FFEL Consolidation activity has decreased dramatically to only $218 million in FY 2009. Much of this drop-off is due in part to the legislative change to fixed borrower interest rates and a saturated marketplace. Almost all future consolidation activity is expected to be in the Direct Loan program.

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.

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 provides a mechanism whereby the Department of Education provides access to capital needed by private lenders to make Federal student loans. The law also increased Unsubsidized Stafford loan amounts in both the FFEL and Direct Loan programs.

Under the ECASLA authority, the Department has implemented four programs since July 1, 2008, to ensure students and families have access to FFEL loans:

- Loan Participation Purchase Program under which the Department buys an interest in (i.e., provides funding for) 2008-2009 loans; lenders must redeem the interest or sell loans to the Department by September 30, 2009; a similar program was established for 2009-2010 loans.
- Loan Purchase Commitment Program under which lenders may sell the Department 2008-2009 loans; a similar program was established for 2009-2010 loans.
- A Short-Term Loan Purchase Program under which lenders may sell the Department 2007-2008 loans; this program ended in February 2009.
- An Asset-Backed Commercial Paper Conduit under which the Department guarantees it will purchase the 2004-2005 through 2008-2009 cohorts of loans used to support commercial paper issues.

Overall, under the ECASLA authority, the Department has purchased approximately $50 billion through FY 2009 and estimates that it will purchase approximately $62 billion more for a total of approximately $112 billion in FFEL loan purchases.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Federal Student Loans

From its inception in 1965 through 2009, the FFEL program has provided over $878 billion in loans to postsecondary students and their parents. Since July 1, 1994, the Direct Loan program has provided $292 billion in new and consolidation loans to students and parents. Taken together, the FFEL and Direct Loan programs will make nearly $109 billion in new loans available in 2010. Because funding for these two programs is provided on a permanent indefinite basis, for budget purposes they are considered separately from other Federal student financial assistance programs. The FFEL and Direct Loan programs should be viewed in combination with these other programs, however, as part of the overall Federal effort to expand access to higher education.

Loan capital in the FFEL program is provided by private lenders, facilitated by the Federal guarantee on the loans. In addition, State and private nonprofit guaranty agencies act 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 provides substantial payments to these guaranty agencies. The Government also promises interest subsidies to lenders for certain situations, as well as most costs associated with loan defaults and other write-offs.

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 and is expected to account for over 34 percent in academic year 2009-2010. Eligible institutions are free to participate in either the Direct Loan or FFEL program.

The Direct Loan and FFEL programs share many basic elements. Each program offers four types of loans: Stafford, Unsubsidized Stafford, PLUS, and Consolidation. Financial need is required for a student to receive a subsidized Stafford loan. The other three loan programs are available to borrowers at all income levels. Loans can be used only to meet qualified educational expenses.

For undergraduate Stafford Loans made on or after July 1, 2008, and before July 1, 2009, the borrower interest rate is fixed at 6.0 percent. The College Cost Reduction and Access Act of 2007 (CCRAA) included a phased interest rate reduction for new undergraduate Stafford Loans, with fixed rates dropping 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. Interest payments for these loans are fully subsidized by the Government while a student is in school and during grace and deferment periods. Borrower interest rates on new Unsubsidized Stafford loans are fixed at 6.8 percent. The fixed borrower interest rate on PLUS loans made on or after July 1, 2006, is 7.9 percent for Direct Loans and 8.5 percent for FFEL.

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

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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 to the Government. Special allowance rates differ for for-profit and not-for-profit loan holders. 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 is 95 percent of unpaid loan principal (including any accrued interest on the full loan principal).

Consolidation loans allow borrowers to combine 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. The interest rate for new FFEL and Direct Consolidation loans equals the weighted average of the interest rate on the loans consolidated, rounded up to the nearest 1/8 of one percent. Lenders may choose to offer a lower rate. Interest rates for all new FFEL and Direct Consolidation Loans are capped at 8.25 percent.

As of July 1, 2009, FFEL borrowers pay an origination fee to the Government equal to 0.5 percent of principal as part of a phase-out of those fees. FFEL borrowers are also liable for a guaranty agency insurance premium of up to 1 percent of principal. Guaranty agencies and lenders have the option of paying some or all of a student borrower's insurance premium and origination fee. Direct Loan borrowers are charged an origination fee equal to 1.5 percent of principal, but are not liable for any insurance premium. The Higher Education Reconciliation Act of 2005 included phased reductions that eliminate FFEL origination fees by July 1, 2010, and lower Direct Loan fees to 1 percent by the same date; the Act also required guaranty agencies to collect the insurance premium. Borrowers in both programs may be offered financial incentives to encourage prompt repayment.

Loan limits are also identical across the two programs and both programs discharge loans when borrowers die, are totally and permanently disabled, or, under some 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 CCRA of 2007 established a public-service loan forgiveness program for public-sector employees. Qualifying borrowers who have worked for 10 years while making payments on their student loan will have any remaining loan balance forgiven. This new benefit is only available in the Direct Loan program, though FFEL borrowers may access the benefit by taking out a Direct Consolidation Loan; it 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

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borrowers may also choose an income-based repayment 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, the Administration's 2011 Budget includes a proposal to reduce monthly payments from 15 percent of a borrower's prior-year discretionary income to 10 percent, and to reduce the maximum length of time a borrower is in the income-based repayment program from 25 years to 20 years, after which any remaining balance is forgiven.

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 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.

The CCRAA created a pilot program under which the rights to originate PLUS loans to parents in each State will be determined through a competitive auction. The two lowest bidders in each State will win the exclusive right to originate new PLUS loans at institutions in that State beginning on July 1, 2009. The first auction was unsuccessful in obtaining an adequate number of potential bidders and was cancelled by the Department. New auctions are due to be held every 2 years.

Due to significant disruptions in the credit markets, in early 2008 FFEL lenders began expressing concerns that there would be insufficient capital to make FFEL loans to all eligible recipients for the 2008-2009 academic year. In response, Congress enacted the Ensuring Continued Access to Student Loans Act (ECASLA), which provided the Department of Education with authority to purchase student loans. Using this authority, the Department established several programs intended to ensure the availability of student loans.

Through the Loan Participation Interest program, the Department purchased a 100-percent interest in any eligible Federal student loan originated during the academic year by a FFEL lender—in other words, the Department provided all of the funds for the loan. On or before September 30, 2009, the lender could either purchase back from the Department its interest in a loan (paying the Department a yield of the Commercial Paper rate plus 50 basis points), or sell the entire loan to the Department in return for a fixed amount to cover the lender's expenses (such as origination and servicing). Between this program and the Direct Loan program, over 88 percent of Federal student loan volume in the 2008-2009 academic year was financed through capital provided by the Department of Education; current estimates indicate this figure will be 85 percent for 2009-2010. The Department also established a Loan Purchase program committing to purchase any eligible loans originated by a FFEL lender during the academic year for face value plus a fixed amount to cover expenses. A short-term version of this program also was created to include a small segment of 2007-2008 academic year loans.

Given the continued concerns around capital liquidity, the ECASLA authority was extended for the 2009-2010 academic year; under this extended authority, the Administration has replicated the Loan Participation and Loan Purchase programs. In addition, the Department is supporting an Asset-Backed Commercial Paper Conduit. The conduit facilitates financial transactions similar to those involved in a typical securitization: investors purchase commercial paper (backed by student loan assets) which mature and are reissued. Interest on the commercial paper is

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paid from student loan repayments and any net gain on the reissuance. Though the hope is the conduit will provide liquidity to FFEL lenders without Federal intervention, the Department, using its ECASLA authority, will serve as a buyer-of-last-resort in cases when the conduit is unable to refinance maturing commercial paper.

New FFEL loan volume was $66.8 billion in FY 2009, accounting for about 69 percent of all new FFEL and Direct Loan (non-consolidation) student loan volume. It is estimated that about 80 percent of this FFEL volume will be financed through the ECASLA authority. With the proposed move to all Direct Loans starting July 1, 2010, new FFEL loan volume (excluding Consolidations) is projected to decrease to $35.2 billion in FY 2010, representing the first 3 quarters of the year. (See New Student Loan Volume table, pg. T-13.) As of FY 2011, there would be no new FFEL loan volume under the proposed policy. Across the FFEL guaranteed program—including the Liquidating account composed of loans issued before 1992—there were approximately $487 billion in FFEL loans outstanding at the end of FY 2009.

The Direct Loan program provided $29.7 billion in new loans (excluding Consolidations) in FY 2009, accounting for 31 percent of all new FFEL and Direct Loan student loan volume. Under the FY 2011 budget proposal, new Direct Loan volume is expected to grow to over $116 billion in FY 2011. (See New Student Loan Volume table, pg. T-13.) Approximately $149 billion in total Direct Loans were outstanding at the end of FY 2009.

Funding

Both FFEL and Direct Loans are mandatory programs whose costs are largely driven by Federal borrowing costs, prevailing interest rates, and defaults. 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 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 2011, the Administration requests $1.17 billion in discretionary funding to administer the Federal student aid programs in the Student Aid Administration (SAA) account. This request is discussed in detail in the justification for **Student Aid Administration,** beginning on page BB-1.

Credit Reform Estimates

Student loan program costs are estimated consistent with 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 (see page T-28) 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 2009, more than completely offset by student and lender origination fees, negative special allowance payments—referred to as rebates—and collections on defaulted loans.

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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 2009 and FY 2010, 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 is -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 in 2010, the overall weighted average subsidy rate is estimated to be -7.75 percent; that is, the program is projected to earn about $7.75 on every $100 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.

Under credit reform, the Department annually reestimates the cost of all outstanding loans by cohort to reflect updated modeling assumptions, 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.

The total change in costs for all outstanding FFEL guaranteed program account loans at the end of 2009 is reflected as the 2010 reestimate. The 2010 FFEL guaranteed loan reestimate reflects a net upward component of +$136 million and a net downward component of -$8.6 billion for a total net downward reestimate of approximately -$8.5 billion. Thus, the estimated Federal cost of prior FFEL guaranteed loan cohorts (1992-2008) is now lower by $8.5 billion as reflected in the net downward reestimate. (The ECASLA four programs, described on T-3 and T-6 show a net upward reestimate of $1.1 billion which when combined with the FFEL guaranteed portion produces an overall net downward FFEL reestimate of about -$7.4 billion.) The large net downward FFEL reestimate is due primarily to a major decrease in the OMB-provided discount rate and a substantial reduction in FFEL Consolidation loan volume.

For the approximately $149 billion in Direct Loans outstanding at the end of 2009, the Budget projects net future Federal costs will be lower in FY 2010 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 2009 is depicted as the 2010 reestimate. The 2010 total net downward reestimate of approximately -$2.6 billion reflects an upward component of about +$3.5 billion and a downward component of -$6.1 billion. The upward reestimate requires a current-year (i.e., FY 2010) mandatory appropriation.

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Loan Terms

The guaranteed FFEL and Direct Loan programs share virtually identical terms and conditions. Both FFEL and Direct Loans provide the following types of loans:

- Subsidized Stafford Loans are subsidized, low-interest, variable or 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 a period of one 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 rate reverts to 6.8 percent on July 1, 2012.

- Unsubsidized Stafford Loans are low-interest, variable or fixed rate loans that are available to student borrowers, regardless of financial need. The Federal Government does not pay interest accruing on Unsubsidized Stafford Loans. 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. HERA extends eligibility for these loans to graduate and professional students. The Federal Government does not pay interest accruing on PLUS Loans. For loans made on or after July 1, 2006, HERA provides that the FFEL PLUS interest rate is fixed at 8.5 percent, whereas the Direct Loan PLUS interest rate was unchanged at a fixed rate of 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 rate for both FFEL and Direct Consolidation Loans is based on the weighted average of loans consolidated rounded up to the nearest 1/8 of 1 percent.

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DIRECT LOAN AND FFEL 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

[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.

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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.

Prior to the passage of the HERA, a PLUS Loan qualified for lender special allowance only if the 91-day T-bill rate plus 3.1 percentage points (set annually for the PLUS interest rate) exceeds 9.0 percent. The special allowance formula uses 2.64 percent added to the commercial paper index for both PLUS and Consolidation Loans. Under HERA, this limitation on PLUS special allowance was eliminated.

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.

STUDENT LOANS OVERVIEW

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 LOANS OVERVIEW

FFEL and Direct Loans

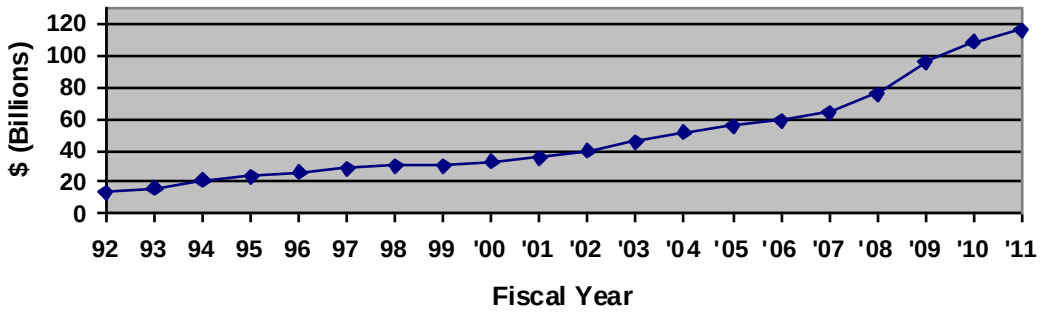
NEW STUDENT LOAN VOLUME

	2005	2006	2007	2008	2009	2010[1]	2011[1]
New Loan Volume ($M)							
FFEL	$43,244	$46,669	$51,848	$57,880	$66,779	$35,233	0
Direct Loans	$12,570	$12,176	$12,507	$17,846	$29,739	$73,529	$116,394
Total	**$55,813**	**$58,845**	**$64,356**	**$75,726**	**$96,518**	**$108,762**	**$116,394**
Number of loans (000s)							
FFEL	10,313	10,841	11,580	12,706	14,459	8,215	0
Direct Loans	2,971	2,814	2,726	3,744	6,110	14,791	24,349
Total	**13,284**	**13,656**	**14,306**	**16,450**	**20,569**	**23,006**	**24,349**

[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 and 2011** is based on proposed policy of moving to 100 percent Direct Loans as of July 1, 2010. Estimated FFEL and Direct Loan amounts in 2010 and 2011 reflect this proposed policy shift.

Total New Student Loan Volume
(Non-Consolidation)

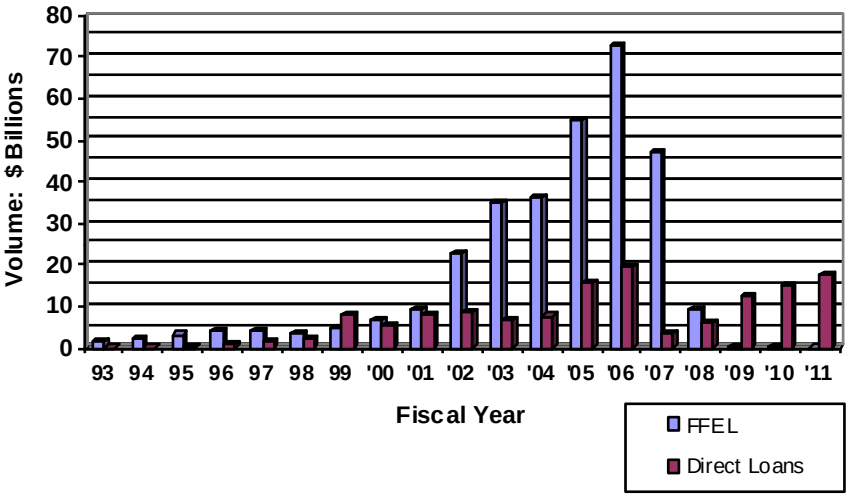


As shown by the historical graph above, total new loan dollar volume has increased significantly since 1992 and is projected to continue increasing in 2010 and 2011. FY 2011 new loan volume of $116.4 billion represents a projected 7 percent increase over 2010. Stafford and Unsubsidized Stafford loans account for approximately 85 percent of this $116.4 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 these 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. Direct Loan Consolidation Loan volume also increased significantly during this period, growing from $7.8 billion in FY 2001 to over $19 billion in FY 2006. While the Direct Loan increase was not as large as FFEL, 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 2010 and FY 2011.

Consolidation Loan Volume



Subsidy costs—for new loans and reestimates for existing loans—for the past 5 fiscal years are shown below: ($000s)

	FFEL	Direct Loans
2006	$28,067,662	$6,191,320
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	-8,472,580

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 and 2010.

FFEL and Direct Loans

FY 2011 BUDGET REQUEST

Subsidies in the Federal guaranteed student loan program—Federal Family Education Loans (FFEL)—are set by Congress through the political process. The FFEL program has needlessly cost taxpayers billions of dollars and subjected students to uncertainty due to turmoil in the financial markets. The Administration supports the House-passed and Senate-pending Student Aid and Fiscal Responsibility Act (SAFRA) reconciliation bill which takes advantage of low-cost and stable sources of capital so students are ensured access to loans and provided high-quality servicing by using competitive, private-sector providers to process loans and payments. This approach, which places all new loans in the Federal Direct Student Loan program beginning on July 1, 2010, saves $27 billion through FY 2015; these savings are reinvested in aid to students through the proposed Pell Grant increases.

According to the 2008 National Postsecondary Aid Survey (NPSAS), borrowers graduating from a 4-year undergraduate school in the United States will have on average approximately $17,000 in Federal student loan debt comprised of Subsidized and Unsubsidized Stafford Loans. Students who consolidate have an average debt of $35,668. Many of these students would benefit from joining the Income-Based Repayment plan, which is designed to ease the burden of student loan debt and assist borrowers struggling with increasing levels of college debt. To ensure that student debts are manageable, the Administration proposes to reduce maximum monthly payments from 15 percent of a borrower's prior-year discretionary income to 10 percent and to reduce the maximum length of time a borrower is in the income-based repayment program from 25 years under current law, to 20 years, after which any remaining balance is forgiven. Borrowers working in public service jobs would have any remaining debt forgiven after 10 years of repayments.

Current annual loan limits in the Federal student loan programs are inadequate for some students. The 50-year-old Perkins Loan program was intended to provide these students with additional 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 the pending reconciliation bill that would create an expanded, modernized Perkins Loan program providing $6 billion in new loan volume annually—six times the current Perkins volume—and reaching up to 2.6 million students at as many as 2,700 additional postsecondary education institutions. Instead of being serviced by the colleges, loans would be serviced by the Department of Education along with other Federal loans. Loan cancellation costs on existing loans would be funded from the Federal share of loan collections; the institutional share of collections would be returned to schools. The loans would have the same low 5 percent interest rate and allowed loan amounts (both undergraduate and graduate) as in the current Perkins program. To make loans available to more students and help finance the expanded Pell Grant, interest on the loans would accrue while students are in school. Overall, this proposal will save $3.2 billion over 5 years.

The FY 2011 Budget Request for this program 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.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

FY 2011 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 2011, under the Budget's proposed policies, the FFEL program would not originate any new loans and would show no new subsidy costs. Under the proposed policy, Direct Loans would assume all new lending beginning July 1, 2010. New Direct Loan subsidy costs in fiscal year 2011 are estimated at -$10.4 billion, supporting $134 billion in estimated total Direct Loan net commitment volume.

Generally, these 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 positive or negative subsidy cost. A negative subsidy occurs when the present value of cash inflows to the Government is estimated to exceed the present value of cash outflows.

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. Based on HERA provisions, however, in FY 2007 the costs of Account Maintenance Fees paid to guaranty agencies, which were partially coming out of Direct Loan administrative funds, have been calculated totally as part of the FFEL subsidy cost. This increases FFEL subsidy costs. In addition, the other administrative funds that support Direct Loans which had been categorized as mandatory were, as of FY 2007, no longer mandatory, but subject to annual discretionary appropriations within the **Student Aid Administration** Account.

The subsidy rate for a FFEL or Direct Loan 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 the loan subsidy costs were negative, such as -$100, the loan would have a negative subsidy rate of -10 percent, meaning 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 2010, the last year under the proposed policy in which the two programs exist, the weighted average FFEL subsidy rate reflecting proposed policy is estimated at -0.22 percent; while the weighted average Direct Loan subsidy rate is estimated at -7.75 percent. The Direct Loan weighted average subsidy rate for FY 2011, the first full year in which all loans would be originated in Direct Loans, would be -6.88 percent. Annual variations in the subsidy rates are largely due to variations in short- and long-term interest rates that drive the lenders' borrowing rate and the interest rate at which borrowers would be repaying 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 interest rates. Even small shifts in interest rate projections may produce substantial movement, up or down, in the subsidy rate. Variations in the subsidy rates between the two loan programs largely exist because borrower repayments in the guaranteed program go to lenders, while Direct Loan borrower repayments can be used to offset Federal borrowing and other program costs.

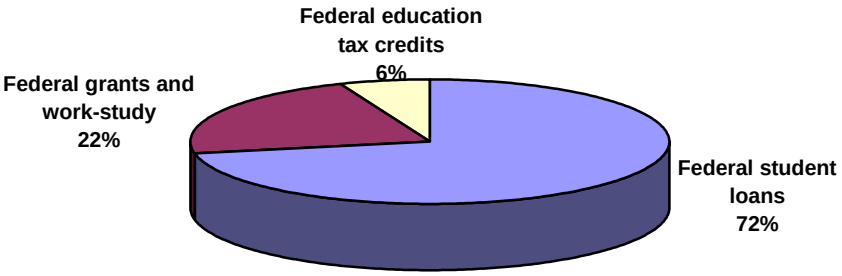
STUDENT LOANS OVERVIEW

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 in this assistance and constitute the largest component of the Federal postsecondary aid system, accounting for 72 percent of Federal student aid available in academic year (AY) 2008-2009, based on Table 1 in the "College Board Trends in Student Aid 2009" online report (Student Aid Trends). The graph below summarizes the Federal postsecondary aid available in AY 2008-2009.

Federal Postsecondary Assistance- AY 2008-2009



Overall, the Federal Government accounts for about 65 percent of aid used to finance postsecondary education, while State, institutional, and private sources provide 35 percent. The Student Aid Trends report (Table 1b) shows that total Federal aid—including postsecondary education tax credits—increased by 91 percent in constant dollars over a period of 10 academic years (1998-09 to 2008-09). Federal loans have played a significant role over this period, growing by some 99 percent in constant dollars; Pell Grant funding, which is specifically targeted to low-income students, increased by 82 percent.

According to cost of attendance tables (Table 5a) in the 2009 "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 $21,475 in 1999-00 to $35,636 in 2009-10, representing a 66 percent increase over this 10-year period. Over the same period, the average total cost at a 4-year public college increased 88 percent, from $8,080 to $15,213. Based on table 5, in constant 2009 dollars, after adjusting for inflation, private 4-year college costs increased about 29 percent and public 4-year college costs increased about 46 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 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.

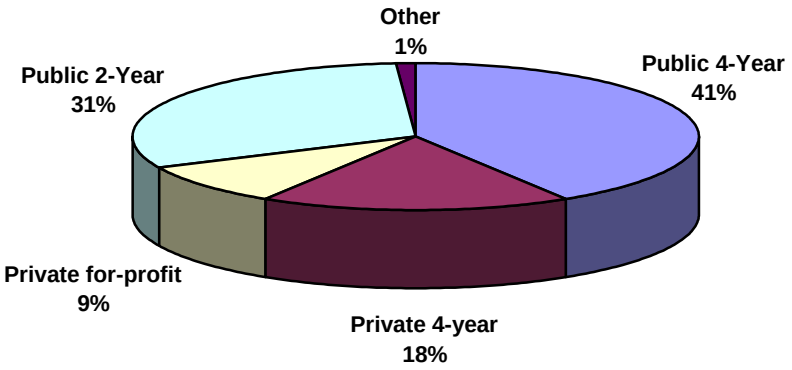
Viewed by institutional type, the borrowing group having the highest percentage of borrowers by far attend private-for-profit (2-year) schools, where over 94 percent received some type of

FFEL and Direct Loans

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 41 percent of all undergraduates attended 4-year public institutions in 2007, while 18 percent were enrolled at 4-year private institutions. Some 31 percent of all undergraduates in 2007 were enrolled at 2-year public colleges and 9 percent were enrolled at private "for-profit" schools. One percent of all undergraduates were enrolled at private not-for-profit 2-year schools. This data is based on full time equivalents (FTE) which counts a part-time student as one-third of a full-time student and helps place into perspective attendance patterns at postsecondary institutions. The chart below depicts this enrollment distribution.

College Board: Fall 2007 Undergraduate Enrollment (%FTE)



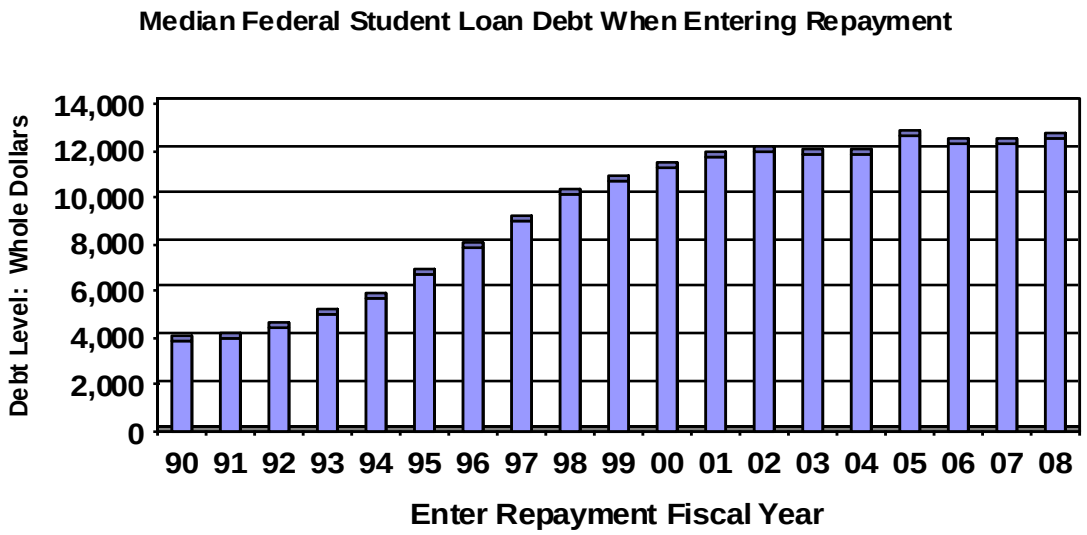
Student Borrowing

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 the **average cumulative Stafford Loan** (including subsidized and unsubsidized) debt owed by "**graduating seniors**" in 2007-2008 at 4-year undergraduate schools is $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 more than tripled since 1990, rising from about $3,847 to $12,500 in 2008. Using the NSLDS data set for all borrowers, a similar pattern of little change between 2002-05 is also noticeable indicating a leveling off in cumulative borrowing in recent years. Note that the **mean** level of cumulative Federal student loan debt increased from $5,392 to $19,710 from 1990 to 2008. The higher levels reflected under the mean are attributable primarily to graduate and professional students, who borrow heavily, weighting the overall average.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans



Program Output Measures on the following pages show program information for FFEL and FDSL program loans for fiscal years 2008 and 2009 consistent with requested funding levels and proposed policies for 2010.

FFEL and Direct Loans

PROGRAM OUTPUT MEASURES

FFEL Program Loans	2009	2010	2011
Stafford Loans:			
Loan volume[1] (million $)	$25,426	$13,424	0
Number of loans (000s)	6,703	3,827	0
Average loan (whole $)	$3,793	$3,508	0
Subsidy rate[2]	3.83%	10.49%	0
Unsubsidized Stafford Loans:			
Loan volume[1] (million $)	$32,441	$18,084	0
Number of loans (000s)	7,015	4,035	0
Average loan (whole $)	$4,624	$4,481	0
Subsidy rate[2]	-7.16%	-6.24%	0
PLUS Loans:			
Loan volume[1] (million $)	$8,912	$3,725	0
Number of loans (000s)	741	353	0
Average loan (whole $)	$12,029	$10,548	0
Subsidy rate[2]	-6.74%	-8.79%	0
Consolidation Loans:			
Loan volume[1] (million $)	$218	$185	0
Number of loans (000s)	6	5	0
Average loan (whole $)	$36,144	$40,448	0
Subsidy rate[2]	-3.21%	-3.07%	0
Subsidy Net Reestimates[3](million $)	-$15,953	-$7,403	0
Net Modification[4] (million $)	-$2,640	0	0
Total FFEL Program Loans:			
Loan volume[1] (million $)	$66,997	$35,418	0
Number of loans (000s)	14,465	8,220	0
Average loan (whole $)	$4,632	$4,309	0
Net Subsidy cost[3] (million $)	-$2,404	-$92	0
Subsidy rate[2]	-2.98%	-0.22%	0
Outstanding: (billion $)			
Total FFEL Loans Outstanding	$479	$489	$447
Total Liquidating Loans Outstanding	8	8	7
Total Outstanding[5]	487	497	454

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 T-1.
[4] Reflects impact in FY 2009 on prior cohorts from law changes due to ECASLA.
[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	2009	2010	2011
Direct Stafford Loans:			
Loan volume[1] (million $)	$11,331	$27,707	$43,640
Number of loans (000s)	2,778	6,801	11,253
Average loan (whole $)	$4,078	$4,074	$3,878
Subsidy rate[2]	-2.02%	8.15%	10.10%
Direct Unsubsidized Stafford Loans:			
Loan volume[1] (million $)	$13,200	$33,680	$55,619
Number of loans (000s)	2,866	7,007	11,685
Average loan (whole $)	$4,606	$4,807	$4,760
Subsidy rate[2]	-27.85%	-17.66%	-16.66%
Direct PLUS Loans:			
Loan volume[1] (million $)	$5,208	$12,142	$17,135
Number of loans (000s)	466	983	1,411
Average loan (whole $)	$11,182	$12,349	$12,143
Subsidy rate[2]	-28.31%	-22.34%	-22.73%
Direct Consolidation Loans:			
Loan volume[1] (million $)	$12,523	$14,830	$17,565
Number of loans (000s)	402	441	492
Average loan (whole $)	$31,133	$33,658	$35,668
Subsidy rate[2]	-9.75%	-2.36%	-1.80%
Subsidy Net Reestimates[3] (million $)	$119	$2,583	0
Net Modification[4] (million $)	0	1,692	0
Total Direct Loans:			
Loan volume[1] (million $)	$42,262	$88,359	$133,959
Number of loans (000s)	6,512	15,232	24,841
Average loan (whole $)	$6,490	$5,801	$5,393
Net Subsidy cost[3] (million $)	-$5,828	-$7,581	-$10,404
Subsidy rate[2]	-14.96%	-7.75%	-6.88%
Outstanding: (billion $)			
Total Direct Loans Outstanding[5]	$149	$207	$324

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 T-1.
[4] Reflects impact on prior cohorts from proposed policy to expand the Income Based Repayment (IBR) plan.
[5] Reflects total Direct Loan principal (including consolidations) as end of year estimate.

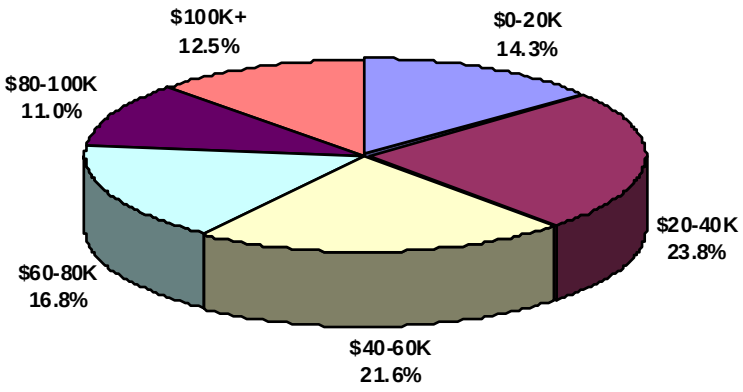
PROGRAM OUTCOMES

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.

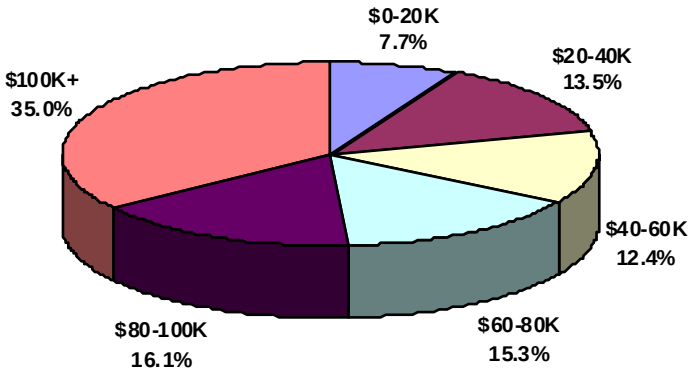
The following charts reflect the percentage of dependent and independent undergraduate Stafford Loan and Unsubsidized Stafford Loan borrowers at various adjusted gross income family levels according to the most recent NPSAS: 2008 data. Notably, about 60 percent of Stafford dependent borrowers are students 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.

FFEL and Direct Loans

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

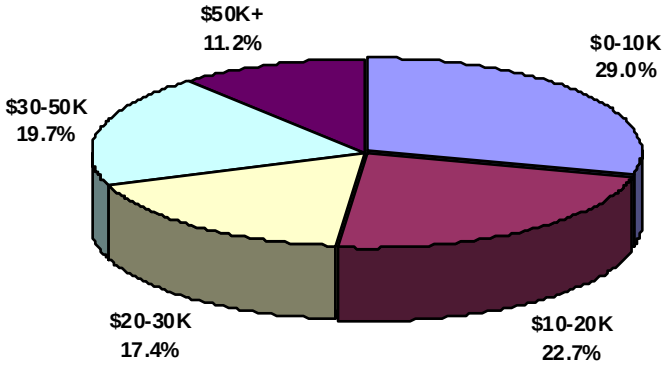


Undergraduate Dependent Unsubsidized Stafford Loan Borrower Distribution--Source: NPSAS: 2008

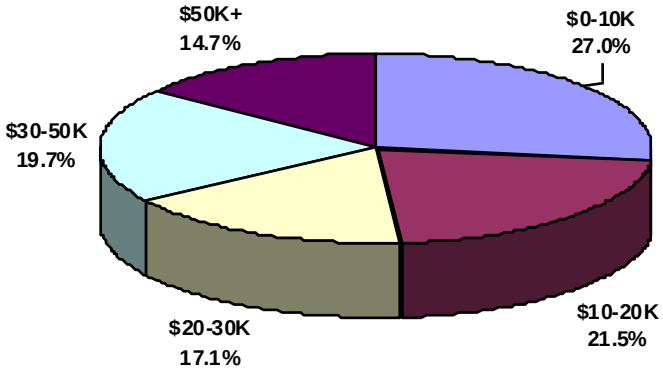


FFEL and Direct Loans

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



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



STUDENT LOANS OVERVIEW

FFEL and Direct Loans

LOAN VOLUME

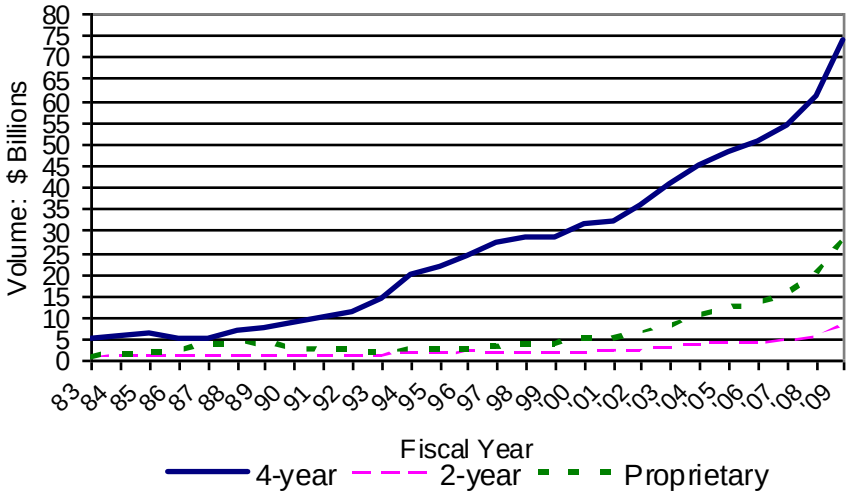
Institutional Sector Trends. Based on FY 2009 NSLDS and related data, approximately 62 percent of all Direct Loan volume occurs at 4-year public institutions, while 4-year private institutions (at 36 percent) account for the largest sector of borrowing within the FFEL program.

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

FY 2009	4-Yr. Public	4-Yr. Private	2-Yr. Public	2-Yr. Private	Proprietary
FFEL	24.3%	35.9%	7.5%	0.4%	31.9%
Direct Loans	61.6%	21.5%	5.7%	0.1%	11.1%

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.)

Annual Loan Volume



- Loan volume at 4-year institutions continues to show substantial growth, increasing from $5 billion in FY 1983, to $73.6 billion in FY 2009, representing 67 percent of all gross commitment loan volume in FY 2009. Growth is split fairly evenly between public and private institutions.

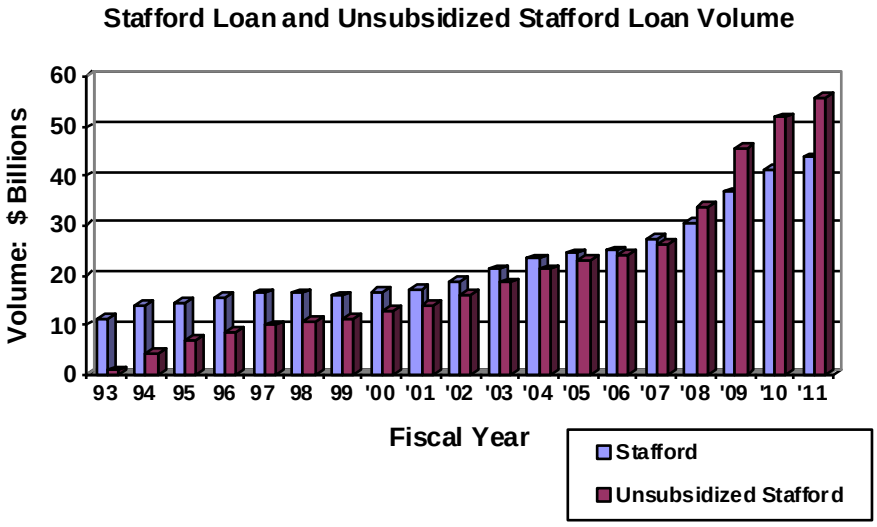
- Loan volume at proprietary institutions grew tremendously at over 42 percent between 2008 and 2009, possibly attributable to difficult economic and employment conditions. At over $28 billion in FY 2009, proprietary school loan volume represents 25.6 percent of total volume, compared to 13.4 percent in FY 2000.

STUDENT LOANS OVERVIEW

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 $8 billion in FY 2009. Relative to the other segments, volume at 2-year schools is comparatively small, accounting for only 7.3 percent of all gross commitment loan volume in FY 2009.

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.



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 2011 and future years, and the resources and efforts invested by those served by this program. The student loan programs and the 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 data, 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 loan programs 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 2009, these programs, excluding Consolidations, provided approximately $96.5 billion in new loan assistance to approximately 9.5 million qualified borrowers. Both FFEL and Direct Loans are authorized as entitlement programs in order to meet student loan demand.

Based on NPSAS:2008, almost 47 percent of all undergraduates received any type of Federal Title IV financial aid in 2007-08 and about 35 percent borrowed a Federal student loan. In 2007-08, of those undergraduates 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.

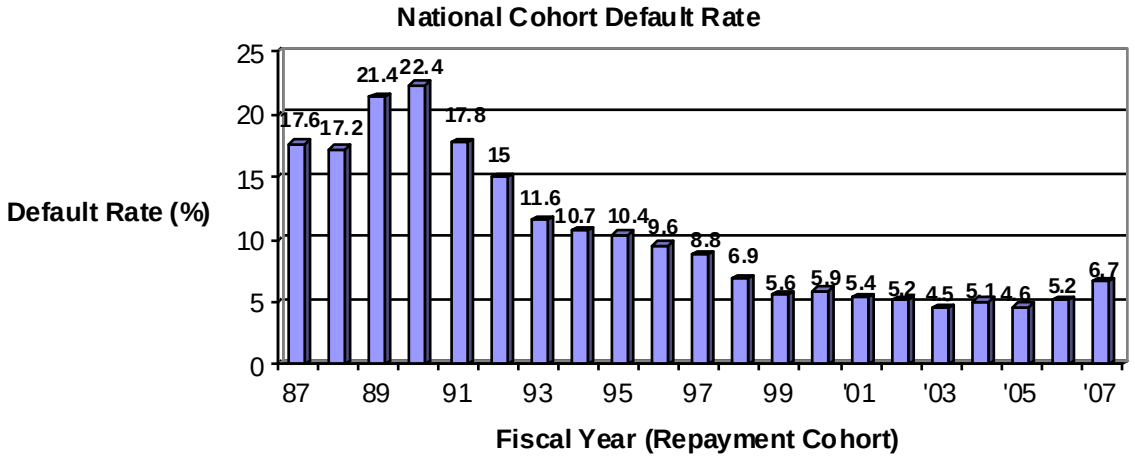
Loan Defaults. One key measure related to the entire student loan program concerns default management. The national student loan "cohort default rate" provides a measure of **borrower** default behavior in the first 2 years after entering repayment. This national cohort default rate measure was first 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 2 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.

Since the inception of the Default Management Initiative, nearly 1,200 schools have lost student loan program eligibility due to high default rates. However, most of this activity occurred prior to the year 2000 cohort default rates. In recent years, there have been few schools sanctioned. With release of the 2007 cohort default rates, 2 schools were subject to sanction.

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 cohort default rate should be viewed in context with other budget tools.



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 -$456 million in FY 2010 and -$407 million in FY 2011. 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.

FFEL and Direct Loans

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, as are borrower insurance premiums based on 1 percent of loan principal. HERA mandates that guaranty agencies are ***required*** to collect the 1 percent insurance premium—previously optional—on all loans guaranteed or disbursed after July 1, 2006.

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 2009 with a balance of about $1.7 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 2009 of about $2.4 billion that becomes the Reserve Fund starting position for FY 2010. The President's proposed budget policy of eliminating new FFEL loans starting July 1, 2010, would reduce the annual balances in this account over time.