

**Department of Education**  
**STUDENT LOANS OVERVIEW**  
**Fiscal Year 2013 Budget Request**

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U.S. DEPARTMENT OF EDUCATION FISCAL YEAR 2013 PRESIDENT'S BUDGET

(in thousands of dollars)						
Account, Program and Activity	Category Code	2011 Appropriation	2012 Appropriation	2013 President's Budget	2013 President's Budget Compared to 2012 Appropriation	
					Amount	Percent
<b>Federal Direct Student Loans Program Account (HEA IV-D) <sup>1,2</sup></b>						
1. New loan subsidies (HEA IV-D)	M	0	0	0	0	---
2. New net loan subsidy (non-add)	M	(21,759,701)	(29,519,353)	(33,474,791)	(3,955,438)	13.399%
3. Upward reestimate of existing loans	M	2,781,709	6,917,373	0	(6,917,373)	-100.000%
4. Downward reestimate of existing loans (non-add)	M	(8,471,000)	(1,351,042)	0	1,351,042	-100.000%
5. Net reestimate of existing loans (non-add)	M	(5,689,291)	5,566,331	0	(5,566,331)	-100.000%
Subtotal, Federal Direct Student Loans Program Account		2,781,709	6,917,373	0	(6,917,373)	-100.000%
Subtotal, new net loan subsidies and net reestimate/modification (non-add)		(27,448,992)	(23,953,022)	(33,474,791)	(9,521,769)	39.752%
Total	M	2,781,709	6,917,373	0	(6,917,373)	-100.000%

R-1

<b>Federal Family Education Loans Program Account (HEA IV-B) <sup>1</sup></b>						
1. Upward reestimate of existing loans	M	177,001	945,141	0	(945,141)	-100.000%
2. Downward reestimate of existing loans (non-add)	M	(24,669,932)	(16,109,263)	0	16,109,263	-100.000%
3. Net reestimate of existing loans (non-add)	M	(24,492,931)	(15,164,122)	0	15,164,122	-100.000%
4. Upward modification of existing loans	M	0	962,840	0	(962,840)	-100.000%
5. Downward modification of existing loans (non-add)	M	0	(713,130)	(3,390,397)	(2,677,267)	375.425%
6. Net modification of existing loans (non-add)	M	0	249,710	(3,390,397)	(3,640,107)	-1457.734%
Total, FFEL Program Account	M	177,001	1,907,981	0	(1,907,981)	-100.000%
Total, new net loan subsidies and net reestimate/modification (non-add)		(24,492,931)	(14,914,412)	(3,390,397)	11,524,015	-77.268%

<b>Federal Family Education Loans Liquidating Account (HEA IV-B) <sup>1,3</sup></b>						
1. Pre-1992 student loans	M	(268,797)	(409,628)	(334,797)	74,831	-18.268%

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

<sup>1</sup> Negative outlays are deposited in designated receipt accounts and are shown in General Fund Receipts.

<sup>2</sup> The Budget Control Act of 2011, P.L. 112-25, generated savings in the Direct Loan program by eliminating Subsidized Stafford Loans for graduate and professional students and eliminating on-time repayment incentives for all borrowers-starting July 1, 2012.

<sup>3</sup> The Student Aid and Fiscal Responsibility Act of 2010 (SAFRA), P.L. 111-152, terminated FFEL loans by authorizing that all newstudent loans would originate in the Direct Loan program as of July 1, 2010.

## STUDENT LOANS OVERVIEW

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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)

(dollars in thousands)

FY 2013 Authorization: Indefinite<sup>1</sup>

Budget Authority:

	<u>2012</u>	<u>2013</u>	<u>Change</u>
<b>Net Loan Subsidies:</b>			
DL New Loan Subsidy <sup>2</sup>	-\$29,519,353	-\$33,474,791	-\$3,955,438
DL Net Reestimate <sup>3</sup>	<u>5,566,331</u>	<u>0</u>	<u>-5,566,331</u>
DL Total Net Subsidy <sup>5</sup>	-23,953,022	-33,474,791	-9,521,769
FFEL New Loan Subsidy <sup>2</sup>	0	0	0
FFEL Net Reestimate <sup>3</sup>	-\$15,164,122	0	+\$15,164,122
FFEL Net Modification <sup>4</sup>	<u>249,710</u>	<u>-3,390,397</u>	<u>-3,640,107</u>
FFEL Total Net Subsidy <sup>5</sup>	-14,914,412	-3,390,397	+11,524,015

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

<sup>1</sup> 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. The Budget Control Act of 2011 (P.L. 112-25) generated savings in the Direct Loan program by eliminating Subsidized Stafford Loans for graduate and professional students and eliminating on-time repayment incentives for all borrowers—starting July 1, 2012. The Consolidated Appropriations Act, 2012 also produced student loan savings by eliminating Federal payment of student loan interest during the grace period for loans made in academic years 2012-13, 2013-14, and introduced a lender option to choose an alternative index (the 1-month London InterBank Offered Rate (LIBOR) for determining special allowance.

<sup>2</sup> 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, 2012 and 2013 cohorts. Normally, the program account does not show budget authority if it is negative. Such 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.

<sup>3</sup> Reestimates of existing loans are performed annually. The large FFEL net downward reestimate in 2012 reflects decreases in the OMB-provided interest rates, and includes programs authorized under ECASLA.

<sup>4</sup> Modification of existing FFEL loans reflects net impact of statutory and/or regulatory changes regarding certain types of consolidations permitted in FY 2012, elimination of Stafford subsidized interest during grace periods for loans made in academic years 2012-13 and 2013-14, allowing lenders to choose between special allowance index options, and a proposed reduction to guaranty agency fee retention on rehabilitated loans.

<sup>5</sup> Total net subsidy provides a net subsidy cost of the loan programs. It includes positive and negative subsidies and upward and downward impacts of reestimates and modifications, consistent with the presentation on page R-1.

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## STUDENT LOANS OVERVIEW

### FFEL and Direct Loans

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#### PROGRAM DESCRIPTION

##### Federal Student Loans

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 Health Care and Education Reconciliation Act of 2010—a portion of which is also known as the Student Aid and Fiscal Responsibility Act (SAFRA)—the Federal Family Education Loan (FFEL) program ceased making new loans as of July 1, 2010. From its inception in 1965 through the end of June 2010, the FFEL program provided almost \$899 billion in student loans to postsecondary students and their parents. Lenders will continue to service those outstanding FFEL loans.

As of July 1, 2010, all Subsidized and Unsubsidized Stafford Loans, PLUS, and Consolidation Loans are originated in the Direct Loan (DL) program. 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 is included when reporting total student loan volume.) In fiscal year (FY) 2013, new Direct Loan volume is estimated to be \$121 billion, plus Consolidations are estimated at \$28 billion, yielding a total of approximately \$149 billion, accounting for 77 percent of all postsecondary aid available from the Department of Education.

Federal student loans were first disbursed 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 those other programs. Although all new loans now originate as Direct Loans, this program description includes relevant information on both the Direct Loan and FFEL programs since billions of dollars in outstanding FFEL loans are still in repayment.

Historically, loan capital in the FFEL program was provided by private lenders, facilitated by the Federal guarantee on the loans. The Federal Government also promised interest subsidies to lenders for certain situations, as well as reimbursement to guaranty agencies for most costs associated with loan defaults and other write-offs. State and private nonprofit guaranty agencies act as agents of the Federal Government, providing a variety of services including insurance payments to lenders for defaults, collection of some defaulted loans, default avoidance activities, and counseling to schools, students, and lenders. There are currently 32 active guaranty agencies. Some of these guaranty agencies also act as contractors to the Department of Education servicing loans under the Direct Loan program.

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, the Federal Government provides the loan capital 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. The program now accounts for all new loan volume as of July 1, 2010.

## STUDENT LOANS OVERVIEW

### FFEL and Direct Loans

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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 R-10. Loans may be discharged when borrowers die, are totally and permanently disabled, or, under limited hardship circumstances, declare bankruptcy.

Four types of loans are available: Subsidized Stafford, Unsubsidized Stafford, PLUS, and Consolidation. Loans can be used only to meet qualified educational expenses. A financial needs test based on family income is required for a student to receive a Subsidized Stafford loan. The other three loan types are available to borrowers at all income levels without meeting the test. In general, PLUS loans are available to parents of dependent undergraduate students as well as to graduate and professional degree students. A PLUS loan applicant must not have an adverse credit history to be eligible, except in extenuating circumstances. The Federal Government pays the interest during in-school and deferment periods on Subsidized Stafford loans. The Government also pays the interest during the 6-month grace period—starting when the loan first enters repayment—for all Subsidized Stafford loans, except as noted below.

Recently, there have been two major changes to the Direct Loan program. A provision in the Budget Control Act of 2011 made graduate and professional students no longer eligible for Subsidized Stafford loans, effective July 1, 2012; and the Consolidated Appropriations Act of 2012, eliminated the grace period benefit for loans made in academic years 2012-2013 and 2013-2014.

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, will be 6.8 percent. However, the Administration proposes to extend the 3.4 percent interest rate for 1 year on new Subsidized Stafford Loans. 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 FFEL lenders. The guarantee percentage paid by guaranty agencies to lenders on most defaults (for those loans disbursed as of July 1, 2006) is 97 percent of unpaid loan principal (including any accrued interest on the full loan principal). According to provisions in the CCRAA of 2007, the guarantee rate will be reduced to 95 percent starting in FY 2013.

In the FFEL program, lenders may receive a special allowance, a type of interest subsidy paid by the Government to ensure a specified 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

## STUDENT LOANS OVERVIEW

### FFEL and Direct Loans

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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. Due to the Consolidated Appropriations Act of 2012 (P.L. 112-74), lenders will now have the option to make a one-time switch to the 1-month London InterBank Offered Rate (LIBOR) index for determining special allowance.

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.

Under both FFEL and Direct Loan 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 provided a public-service loan forgiveness program for nonprofit and public-sector employees. Eligible borrowers who work for 10 years while making timely payments on their student loan debt 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 where FFEL loans (except Parent PLUS) are repaid according to the borrower's income. Under this plan, any outstanding balances remaining after 25 years in repayment will be forgiven by the Federal Government.

To ensure that student debts are manageable, SAFRA reduced monthly payments in IBR from 15 percent of a borrower's prior-year discretionary income to 10 percent, and reduced 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. SAFRA authorized that new loans beginning July 1, 2014, were eligible for this IBR treatment. In October 2011 the Administration announced an initiative that would accelerate these benefits for certain borrowers.

Borrowers under Direct Loans may choose from the same payment plans as 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 2012, new Direct Loan net commitment volume is estimated at about \$115 billion, plus about \$63 billion in Consolidation loans for a total of \$178 billion. The Consolidation estimate reflects a special one-time 6-month period (January – June 2012) where students who have both a FFEL and a Direct Loan are encouraged to consolidate their loans into one Direct Loan. As an

## STUDENT LOANS OVERVIEW

### FFEL and Direct Loans

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incentive to do so, qualified borrowers would be eligible for a .25 percent interest rate reduction on each of the loans being repaid via the Consolidation. Borrowers would also be eligible for the current .25 percent interest rate reduction for electronic payment. This special cohort of Consolidation loans is estimated to account for approximately \$38 billion out of the \$63 billion in total Consolidation activity forecast during FY 2012.

Approximately \$342 billion in total Direct Loans was outstanding at the end of FY 2011. Across the FFEL guaranteed program—including the Liquidating account composed of loans issued before 1992—there were approximately \$364 billion in FFEL loans and \$98 billion in ECASLA program loans outstanding at the end of FY 2011.

### 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. The grace period interest benefit is eliminated for loans made in academic years 2012-13 and 2013-14. Graduate and professional students are ineligible for these loans starting July 1, 2012. For loans made on or after July 1, 2006, interest rates were 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 phased 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. (However, the Administration proposes to extend the 3.4 percent interest rate for one year on new Subsidized Stafford Loans.)
- 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 upon 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 (Parent PLUS) of dependent undergraduate students and to graduate and professional degree students. Generally, PLUS Loan applicants must not have an adverse credit history to be eligible. 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

### FFEL and Direct Loans

#### Student Loan Program Maximums (Whole dollars)

	ANNUAL LIMITS	ANNUAL LIMITS
<b>DEPENDENT UNDERGRADUATES</b>	<b>Stafford</b>	<b>Total (Stafford &amp; Unsubsidized Stafford)</b>
First-Year Student	\$3,500	\$5,500 <sup>1</sup>
Second-Year Student	\$4,500	\$6,500 <sup>1</sup>
Third-Year+ Student	\$5,500	\$7,500 <sup>1</sup>
<b>INDEPENDENT UNDERGRADUATES <sup>2,3</sup></b>		
First-Year Student	\$3,500	\$9,500 <sup>1</sup>
Second-Year Student	\$4,500	\$10,500 <sup>1</sup>
Third-Year+ Student	\$5,500	\$12,500 <sup>1</sup>
<b>GRADUATE STUDENTS<sup>3</sup></b>	\$8,500	\$20,500
	AGGREGATE LIMITS	AGGREGATE LIMITS
<b>DEPENDENT UNDERGRADUATES</b>	\$23,000	\$31,000 <sup>1</sup>
<b>INDEPENDENT UNDERGRADUATES <sup>2,3</sup></b>	\$23,000	\$57,500 <sup>1</sup>
<b>GRADUATE STUDENTS<sup>3</sup></b>	\$65,500	\$138,500

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

<sup>1</sup> 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.

<sup>2</sup> And dependent undergraduates whose parents are unable to borrow under the PLUS program.

<sup>3</sup> 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.



## STUDENT LOANS OVERVIEW

### FFEL and Direct Loans

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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. Due to the Consolidated Appropriations Act of 2012, lenders will now have an option to make a one-time switch to the 1-month London InterBank Offered Rate (LIBOR) index for determining special allowance

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.

## 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 <sup>1</sup>	Loans made on or after July 1, 2006
<b>Stafford and Unsubsidized Stafford</b>	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
<b>PLUS</b>	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
<b>FFEL Consolidation Loans<sup>2</sup></b>	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%
<b>Direct Consolidation Loans-- Stafford and Unsubsidized Stafford</b>	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
<b>Direct PLUS Consolidation</b>	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

<sup>1</sup> The Transportation Equity Act for the 21<sup>st</sup> 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."

<sup>2</sup> 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

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#### FFEL and Direct Loans 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 demand. The programs are funded by indefinite budget authority and therefore do not receive 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 mandatory appropriations while most are funded through administrative funds. In FY 2013, 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 \$726.6 million for student aid administration, and \$399.7 million for loan servicing activities. In addition, \$359 million in mandatory funds would be provided to not-for-profit loan servicers and \$8 million would support the proposed new Perkins Loan program. 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 (FCRA) 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, key credit reform costs include reimbursements for in-school interest benefits and special allowance payments to lenders, and default reinsurance payments to guaranty agencies. These costs can be partially or more than completely offset by various 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 2012 and FY 2013, 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 Direct Loans, the overall weighted average subsidy rate was estimated to be -13.91 percent in FY 2011; that is, the overall program on average was projected to earn about 13.91 percent on each dollar of loans made, thereby providing savings to the Federal Government.

In an effort to better reflect interest rate variability of future estimates, the Department of Education in 2006 implemented probabilistic scoring for the FFEL and Direct Loan programs similar to the Congressional Budget Office methodology. Previously, estimates 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.

## STUDENT LOANS OVERVIEW

### FFEL and Direct Loans

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#### 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. A 2013 Budget proposal would lower payments to guaranty agencies for rehabilitated loans resulting in approximately \$3.4 billion in savings. The Direct Loan subsidy costs in FY 2013 are estimated at -\$33.5 billion, reflecting impacts of the Administration's proposed Direct Loan policies, and supporting approximately \$166 billion in estimated total Direct Loan gross (volume) commitments equating to aid available of \$149 billion in net 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. Currently, the Direct Loan program reflects a negative subsidy. *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 FCRA 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 dollar of loans made instead of incurring a cost. Program changes, economic conditions, as well as borrower repayment patterns can affect subsidy estimates and reestimates.

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 for 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 of Subsidy Costs*

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 \$342 billion in Direct Loans outstanding at the end of 2011, the Budget projects net future Federal costs will be higher in FY 2012 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 2011 is depicted as the 2012 reestimate. The 2012 total net upward reestimate of +\$5.5 billion reflects an upward component of about +\$6.9 billion and a downward component of -\$1.4 billion. The upward reestimate requires a current-year (i.e., FY 2012) mandatory appropriation.

## STUDENT LOANS OVERVIEW

### FFEL and Direct Loans

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The total change in costs for all outstanding FFEL guaranteed program account loans at the end of 2011 is reflected as the 2012 reestimate. The 2012 FFEL guaranteed loan reestimate reflects an upward component of +\$144 million and a downward component of -\$13.8 billion for a total net downward reestimate of -\$13.6 billion. Thus, the estimated Federal cost of prior FFEL guaranteed loan cohorts (1992-2011) is now lower by \$13.6 billion as reflected in the net downward reestimate.

The four ECASLA programs, show a net downward reestimate of -\$1.5 billion, which when combined with the FFEL guaranteed portion produces an overall net downward FFEL reestimate of over -\$15.1 billion. This large net downward FFEL reestimate is due primarily to decreases in the OMB-provided interest rates released under the 2013 President's Budget economic assumptions.

Total net FFEL and Direct Loan subsidy costs for the past 5 fiscal years are shown below:

(dollars in thousands)

Fiscal Year	<u>FFEL</u>	<u>Direct Loans</u>
2008	-\$1,977,384	\$4,075,330
2009	-32,801,648	-5,709,053
2010	-9,104,047	-11,215,767
2011	-24,492,931	-27,448,992
2012	-14,914,412	-23,953,022

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, 2011, and 2012.

## STUDENT LOANS OVERVIEW

### FFEL and Direct Loans

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## FY 2013 BUDGET REQUEST

### Student Loan Reform Proposals

The Administration proposes several student loan reforms in this FY 2013 budget request to better target subsidies and available aid and to provide savings for Pell grant scholarships for needy undergraduates. Highlights of the key student loan proposals appear below.

#### ***Eliminate the Interest Subsidy for Borrowers Who Remain in School Beyond 150 Percent of Their Program Length***

To encourage all borrowers to complete their educational programs in a timely manner, while preserving scarce taxpayer dollars for other critical student assistance programs, the Administration proposes to limit the duration of borrowers' in-school interest subsidy to 150 percent of the normal time required to complete their educational programs. The Budget request **eliminates the in-school interest subsidy for borrowers who do not complete their program within 150 percent of their program length**. Beyond that point, these borrowers no longer receive the interest subsidy for the Subsidized Stafford loans they have taken out, and interest will immediately begin to accrue on these loans. As with the 12 semester Pell limitation enacted this fall, students who attend school half-time would have their benefits adjusted accordingly.

#### ***Reconfigure the FFEL Loan Rehabilitation Program***

This policy would make a technical change to the guaranty agencies' retention of loan rehabilitation funds, modifying its current retention share of the original defaulted student loan amount and reducing from 18.5 percent to 16 percent the fee it can charge borrowers on their outstanding loan balance. This policy also requires agencies to send the rehabilitated loans to the Department of Education, but only in cases where guaranty agencies are unable to find a private lender willing to purchase such loans; guaranty agencies would still be entitled to a 16 percent collection fee. To the extent that guaranty agencies sell rehabilitated loans to affiliated not-for-profit servicers, the current program provides excessive returns to guaranty agencies and could encourage them to permit delinquent borrowers to go into default so that the loans can be rehabilitated. To a significant extent, the not-for-profit servicers will benefit from new loan servicing contracts awarded from authority given in the HCERA (SAFRA), and these arrangements will mitigate some of the potential financial impact of the proposed policy on guaranty agencies.

#### ***Perkins Loan Program Modernization and 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 into a new mandatory Perkins Loan program providing up to \$8.5 billion in new loan volume annually, as discussed in the **Student Aid Overview** beginning on page O-1. As part of an overall campus-based aid reform, Federal funding under Federal Perkins Loans would be allocated in a manner

## STUDENT LOANS OVERVIEW

### FFEL and Direct Loans

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that promotes student interests by ensuring campus based aid is available at those institutions that enroll and graduate relatively higher numbers of Pell-eligible students; offer relatively lower tuition prices and/or restrain tuition growth; and, offer quality education and training such that graduates obtain employment and can comfortably afford to repay educational debt. Like current Perkins loans, colleges would retain flexibility in awarding loans among their students and determining student eligibility. However, instead of being serviced by the colleges, loans would be serviced by the Department of Education's private sector servicers along with other Federal loans.

The Administration proposes a Perkins Loan 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.

#### ***Extend Subsidized Stafford Interest Rate of 3.4 Percent for One Year***

Under current law, the interest rate on new Subsidized Stafford Loans is due to increase from 3.4 percent to 6.8 percent as of July 1, 2012. The Administration proposes extending the current 3.4 percent interest rate for an additional year through June 30, 2013.

#### ***Modify Automatic Dialing System Procedures for Debt Collection***

The Budget proposes modifying current procedures regarding the use of automatic dialing systems and prerecorded voice messages to contact wireless phones in the collection of debt owed to or granted by the United States. This modification would be consistent with proposed Federal Communications Commission policy allowing the use of automatic dialing for land-line phones. The Department fully employs every available tool to assist borrowers in avoiding the negative consequences of default by offering numerous, affordable loan repayment options, including, for example, the flexible income-based and income-contingent repayment plans.

#### **FY 2013 Estimated Loan Subsidy Cost**

For FY 2013, based on proposed policies, the Direct Loan program weighted average subsidy rate is estimated to be -20.08 percent. This reflects the projection that on average, the Federal Government will earn 20.08 percent on each dollar of loans originated in FY 2013.

The FY 2013 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

#### FY 2013 Estimated New Direct Loan Volume

New loan dollar volume has increased significantly since 1992 and is projected to continue increasing in 2012 and 2013. FY 2013 new loan volume of \$121 billion represents a projected 11 percent increase over 2011. Stafford and Unsubsidized Stafford loans account for approximately 81 percent, or \$98.2 billion, of this new Direct loan volume, the remainder being a projected \$22.6 billion in Direct PLUS loans.

A variety of factors such as college costs, legislative changes, programmatic changes that increase eligibility, State aid, Federal aid, economic conditions, and enrollment demographics may all interact to affect new loan demand patterns. The historical data shown below illustrates the steady increase in demand for student borrowing.

#### New Student Loan Volume (Non-Consolidation)

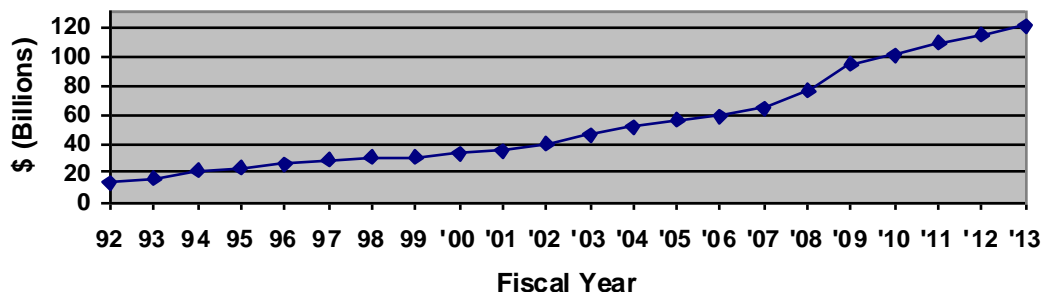
Program Volume <sup>1</sup>	FY2008	FY2009	FY2010	FY2011	FY2012 <sup>2</sup>	FY2013 <sup>2</sup>
New Loan Volume (\$M)						
FFEL	\$57,962	\$65,674	\$19,618	0	0	0
Direct Loans	<u>17,851</u>	<u>28,858</u>	<u>80,690</u>	<u>\$108,926</u>	<u>\$114,674</u>	<u>\$120,822</u>
<b>Total</b>	75,812	94,532	100,308	108,926	114,674	120,822
Number of Loans (thousands)						
FFEL	12,720	14,264	5,220	0	0	0
Direct Loans	<u>3,749</u>	<u>6,098</u>	<u>16,606</u>	<u>23,218</u>	<u>22,356</u>	<u>22,518</u>
<b>Total</b>	16,469	20,362	21,826	23,218	22,356	22,518

Notes: Details may not sum to totals due to rounding. Loan volume and number of loans reflect net commitments.

<sup>1</sup> Includes Subsidized and Unsubsidized Stafford Loans, and PLUS loans originated in each fiscal year.

<sup>2</sup> Estimated volume.

#### New Student Loan Volume (Non-Consolidation)





## STUDENT LOANS OVERVIEW

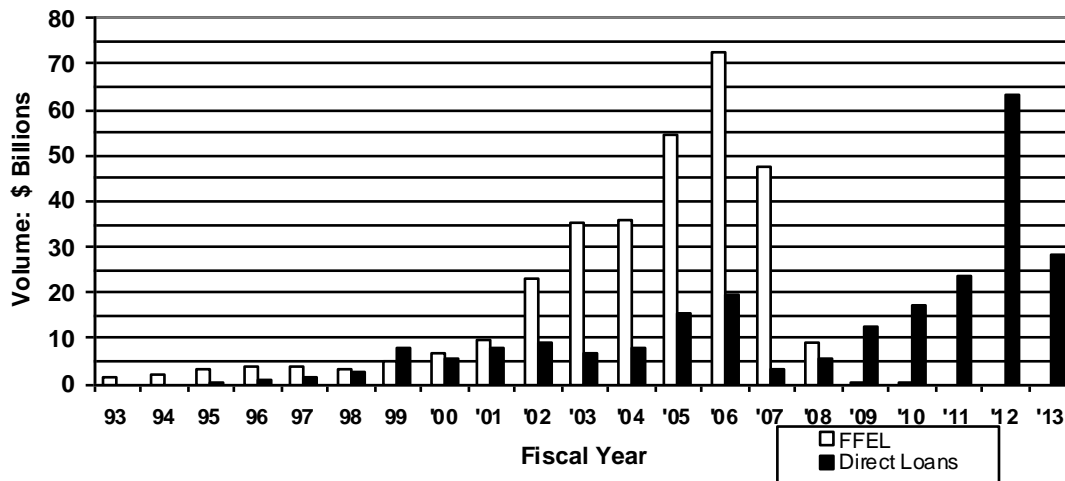
### FFEL and Direct Loans

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#### FY 2013 Estimated Consolidation Loan Volume

New Direct Loan Consolidations are estimated at \$28.4 billion in FY 2013, a decrease of about 55 percent from FY 2012. This decrease reflects a dramatic spike in new Consolidation loan volume anticipated in 2012 as a result of a special one-time only 6-month period (January – June 2012) when borrowers in repayment who have both a FFEL and a Direct Loan are encouraged to consolidate their loans into one Direct Loan. Repayment incentives include the current 0.25 percent rate reduction for electronic payment and an additional 0.25 percent interest rate reduction on each of the loans repaid by the special Direct Consolidation Loan.

#### Consolidation Loan Volume



An historical look at consolidation loan trends reveals the influence of a favorable interest rate environment and highly competitive marketing on the number of new consolidations. A dramatic surge in FFEL Consolidation Loan volume occurred from FY 2001 to FY 2006, when 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. Since that time, Consolidation Loan volume has decreased. In accordance with provisions contained in SAFRA, as of July 1, 2010, no new FFEL Consolidation loans could be made. All new Consolidation Loans are now originated through the Direct Loan program.

## STUDENT LOANS OVERVIEW

### FFEL and Direct Loans

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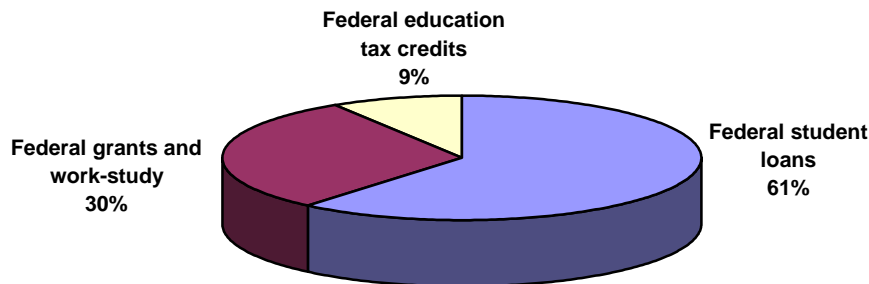
#### The Role of Student Loans

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. Of total new Federal student grant and loan aid available in FY 2013, for academic year (AY) 2013-2014, new student loans comprise nearly 80 percent, or \$154.4 billion. This estimate includes not only all Direct Loans, but also Perkins Loans.

Another form of Federal student aid is the category of Federal student aid tax credits. Data for AY 2010-2011 show when Federal tax credits are added to the aid available mix, that new Federal student loans still account for over 61 percent of new AY 2010-2011 student aid. This data is based on Table 1 in the “College Board Trends in Student Aid 2011” online report (Student Aid Trends). [http://trends.collegeboard.org/student\\_aid](http://trends.collegeboard.org/student_aid)

The chart below shows the key areas of Federal postsecondary aid available in AY 2010-2011.

**Federal Postsecondary Assistance: Academic Year 2010-2011**



According to the College Board Trends in Student Aid 2011 report, the Federal Government accounts for almost 72 percent of all postsecondary education financial aid, while State, institutional, and private sources provide about 28 percent. In the Student Aid Trends report, Table 1 shows that total Federal aid—including postsecondary education tax credits—increased by 164 percent in constant dollars over a period of 10 academic years (2000-01 to 2010-11). Federal loans have played a significant role over this period, growing by some 139 percent in constant dollars while Pell Grant funding, which is specifically targeted to low-income students, increased by 246 percent during this 10-year period—including a major increase of over 67 percent during the 2009-10 academic year.

#### Postsecondary Cost and Enrollment by Institutional Sector

Based on cost of attendance tables (Table 5a) in the 2011 “College Board Trends in College Pricing” (College Pricing) report, [http://trends.collegeboard.org/college\\_pricing](http://trends.collegeboard.org/college_pricing), 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 \$23,856 in 2001-02 to \$38,589 in 2011-12, representing a 62 percent increase over this 10-year period.

## STUDENT LOANS OVERVIEW

### FFEL and Direct Loans

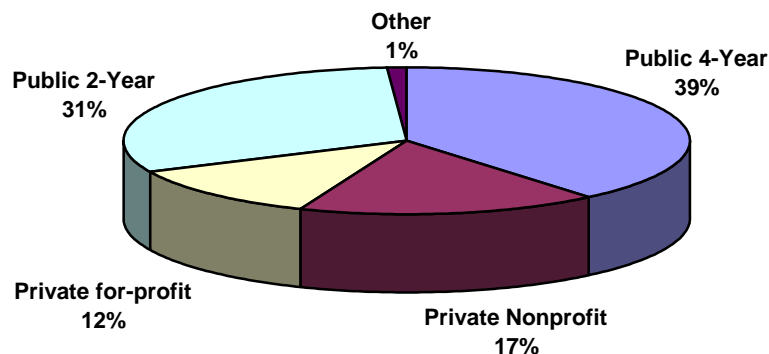
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Over the same 10-year period, the average total cost at a 4-year public college increased 90 percent, from \$9,032 to \$17,131. Table 5 indicates that in constant 2011 dollars, after adjusting for inflation, private 4-year college costs increased approximately 27 percent and public 4-year college costs increased about 49 percent during this 10-year period.

To meet these educational costs, 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 National Postsecondary Student Aid Study (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 increased to 34.5 percent. According to the 2008 NPSAS, the school group having the highest percentage of borrowers by far attend 2-year private-for-profit schools, where over 94 percent received some type of Stafford loan in 2007-08. The group with the lowest borrowing percentage attended 2-year public schools, where approximately 10 percent borrowed some type of Stafford loan.

The College Board’s on-line report on Student Aid Trends, shows that for the latest enrollment data, approximately 39 percent of all undergraduates were enrolled at 4-year public institutions in 2009, while 17 percent were enrolled at private nonprofit institutions—which are almost entirely 4-year institutions. Some 31 percent of all undergraduates in 2009 were enrolled at 2-year public colleges and 12 percent were enrolled at private “for-profit” schools. (Another 1 percent were in public and private nonprofit less-than-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. The enrollment distribution is shown below.

**Fall 2009 Undergraduate Enrollment (Percent of FTE)**



## STUDENT LOANS OVERVIEW

### FFEL and Direct Loans

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#### 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 -\$410 million in FY 2012 and -\$335 million in FY 2013, a net budget savings. The 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.

#### Federal Student Loan Reserve Fund

The Higher Education Amendments (HEA) of 1998 clarified that reserve money held by public and non-profit guaranty agencies participating in the FFEL program are Federal property. These funds are used to pay default claims from FFEL lenders as well as other claims 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 2011 with an adjusted balance of about \$2.1 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 2011 of about \$1.7 billion that becomes the Reserve Fund starting position for FY 2012. 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.

## STUDENT LOANS OVERVIEW

### FFEL and Direct Loans

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#### PROGRAM OUTPUT MEASURES

##### FFEL Program Loans

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
<b>Stafford Loans:</b>			
Loan volume (million \$) <sup>1</sup>	0	0	0
Number of loans (in thousands)	0	0	0
Average loan (whole \$)	0	0	0
Subsidy rate <sup>2</sup>	0	0	0
<b>Unsubsidized Stafford Loans:</b>			
Loan volume (million \$) <sup>1</sup>	0	0	0
Number of loans (in thousands)	0	0	0
Average loan (whole \$)	0	0	0
Subsidy rate <sup>2</sup>	0	0	0
<b>PLUS Loans:</b>			
Loan volume (million \$) <sup>1</sup>	0	0	0
Number of loans (in thousands)	0	0	0
Average loan (whole \$)	0	0	0
Subsidy rate <sup>2</sup>	0	0	0
<b>Consolidation Loans:</b>			
Loan volume (million \$) <sup>1</sup>	0	0	0
Number of loans (in thousands)	0	0	0
Average loan (whole \$)	0	0	0
Subsidy rate <sup>2</sup>	0	0	0
<b>Total FFEL Program Loans:</b>			
Loan volume (million \$) <sup>1</sup>	0	0	0
Number of loans (in thousands)	0	0	0
Average loan (whole \$)	0	0	0
<b>Subsidy Cost</b>			
Net subsidy cost (million \$) <sup>3</sup>	0	0	0
Subsidy Net Reestimate (million \$) <sup>3</sup>	-\$24,493	-\$15,164	0
Net Modification (million \$) <sup>3</sup>	0	250	-\$3,390
FFEL Total Net Subsidy (million \$)	-\$24,493	-\$14,914	-\$3,390
Subsidy rate <sup>2</sup>	0	0	0
<b>Outstanding Loan Volume (billion \$):</b>			
Total FFEL Loans	\$357	\$282	\$250
Total Liquidating Account Loans	<u>7</u>	<u>7</u>	<u>6</u>
Total Combined Outstanding <sup>4</sup>	364	289	256

NOTES: Details may not sum due to rounding

<sup>1</sup> Reflects net commitments (disbursements), which are less than amounts committed (e.g., due to loan cancellations).

<sup>2</sup> 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.

<sup>3</sup> Subsidy amounts are estimated on a net present value basis. Net reestimates and modifications may reflect both upward and downward amounts—consistent with data on page R-1.

<sup>4</sup> Reflects total FFEL and Liquidating account loan principal (including consolidations) as end of year estimate.

## STUDENT LOANS OVERVIEW

### FFEL and Direct Loans

#### Direct Loans

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
<b>Direct Stafford Loans:</b>			
Loan volume (million \$) <sup>1</sup>	\$41,775	\$35,554	\$32,044
Number of loans (in thousands)	10,883	9,966	9,466
Average loan (whole \$)	\$3,838	\$3,568	\$3,385
Subsidy rate <sup>2</sup>	5.25%	5.94%	-0.95%
<b>Direct Unsubsidized Stafford Loans:</b>			
Loan volume (million \$) <sup>1</sup>	\$48,082	\$58,468	\$66,160
Number of loans (in thousands)	10,796	10,804	11,398
Average loan (whole \$)	\$4,454	\$5,412	\$5,804
Subsidy rate <sup>2</sup>	-25.89%	-28.26%	-28.38%
<b>Direct PLUS Loans:</b>			
Loan volume (million \$) <sup>1</sup>	\$19,070	\$20,652	\$22,618
Number of loans (in thousands)	1,539	1,586	1,654
Average loan (whole \$)	\$12,390	\$13,019	\$13,675
Subsidy rate <sup>2</sup>	-30.32%	-32.83%	-32.66%
<b>Direct Consolidation Loans:</b>			
Loan volume (million \$) <sup>1</sup>	\$23,806	\$63,478	\$28,398
Number of loans (in thousands)	594	2,737	673
Average loan (whole \$)	\$40,074	\$23,190	\$42,221
Subsidy rate <sup>2</sup>	-9.97%	-8.68%	-11.85%
<b>Total Direct Loans:</b>			
Loan volume (million \$) <sup>1</sup>	\$132,732	\$178,152	\$149,221
Number of loans (in thousands)	23,812	25,093	23,190
Average loan (whole \$)	\$5,574	\$7,100	\$6,435
<b>Subsidy Cost</b>			
New loan subsidy cost (million \$) <sup>3</sup>	-\$21,760	-\$29,519	-\$33,475
Subsidy Net Reestimate (million \$) <sup>3</sup>	-\$5,689	\$5,566	0
Net Modification (million \$) <sup>3</sup>	0	0	0
DL Total Net Subsidy (million \$)	-\$27,449	-\$23,953	-\$33,475
Subsidy rate <sup>2</sup>	-13.91%	-15.15%	-20.08%
<b>Outstanding Loan Volume (billion \$):</b>			
Total Direct Loans Outstanding <sup>4</sup>	\$342	\$494	\$606

NOTES: Details may not sum due to rounding.

<sup>1</sup> Reflects net commitments (disbursements), which are less than amounts committed (e.g. due to loan cancellations).

<sup>2</sup> 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.

<sup>3</sup> Subsidy amounts are estimated on a net present value basis. Negative subsidy results in a net gain to the Federal Government. Net reestimates and modifications may reflect both upward and downward amounts—and are consistent with data on page R-1.

<sup>4</sup> Reflects total Direct Loan principal (including consolidations) as end-of-year estimate.

## STUDENT LOANS OVERVIEW

### FFEL and Direct Loans

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#### Student Borrowing

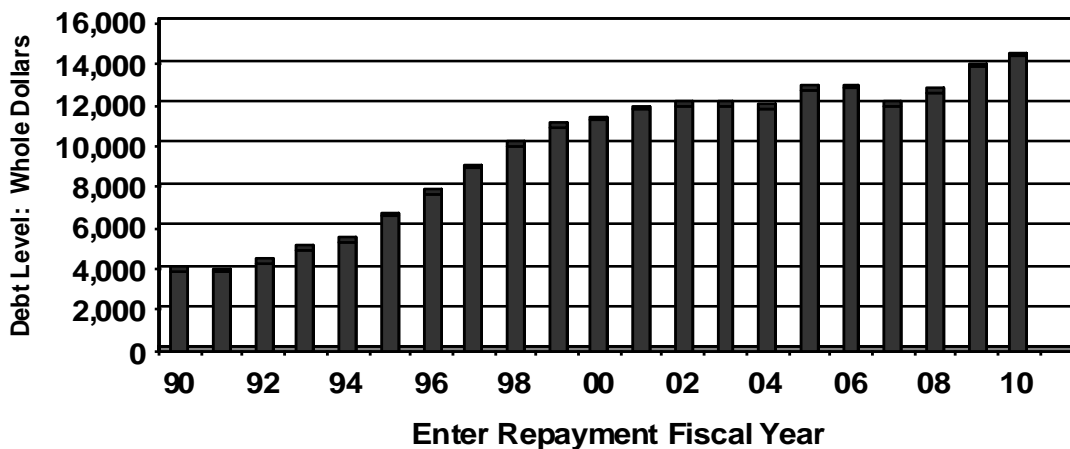
Students rely on the Federal loan programs to help close the gap between what their families can afford to pay (“estimated family contribution”) and the cost of attendance (including tuition, fees, and room and board). Based on the latest 2008 NPSAS, slightly over 60 percent of seniors who graduated 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.

#### Median Federal Student Loan Debt

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 undergraduate and graduate borrowers** has increased substantially since 1990, rising from about \$3,901 to \$11,265 in 2000 and \$14,395 in 2010. Note that the **mean** level of cumulative Federal student loan debt since 1990 increased from \$5,369 to \$16,640 in 2000 and to \$22,507 in 2010. The higher levels reflected by the mean are attributable primarily to graduate and professional students, who borrow heavily.

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.

**Median Federal Student Loan Debt When Entering Repayment**



## STUDENT LOANS OVERVIEW

### FFEL and Direct Loans

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#### Undergraduate Stafford Loan Borrower Distribution by Family Income

The Subsidized Stafford Loan, where the Federal Government typically 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 charts shown below reflect the percentage of dependent (page R-23) and independent (page R-24) undergraduate borrowers of Stafford Loan and Unsubsidized Stafford Loans at various family adjusted gross income levels, according to the most recent NPSAS: 2008 data.

Notably, these charts illustrate that 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. Meanwhile, about 50 percent of undergraduate independent borrowers with either Subsidized or Unsubsidized loans showed family income of \$20,000 or less, and roughly 50 percent reported income over \$20,000.

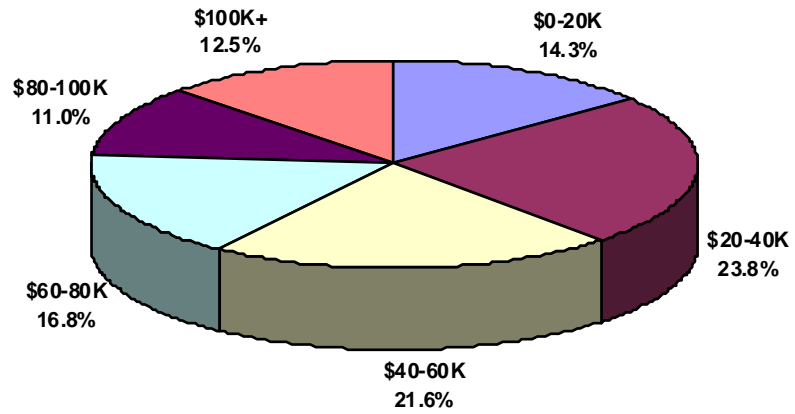


# STUDENT LOANS OVERVIEW

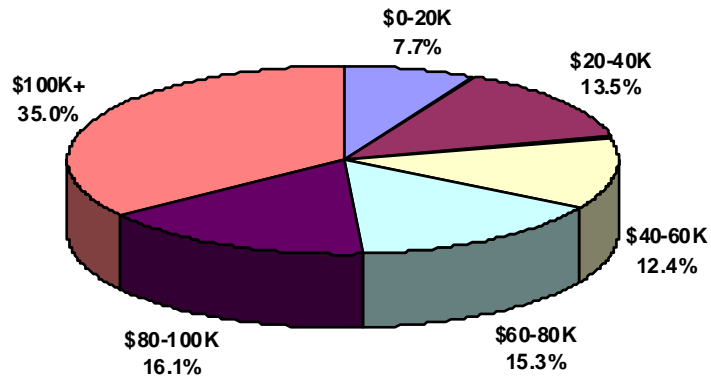
## FFEL and Direct Loans

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



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

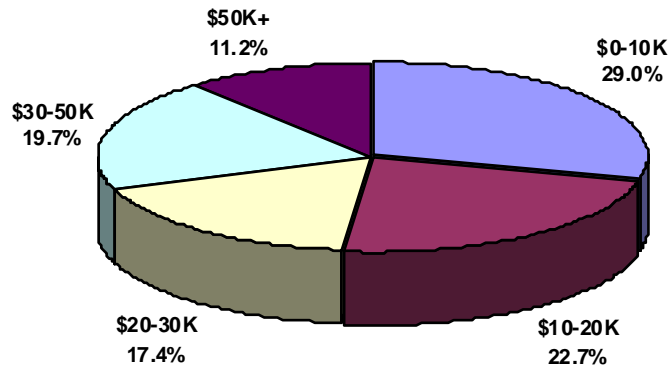


## STUDENT LOANS OVERVIEW

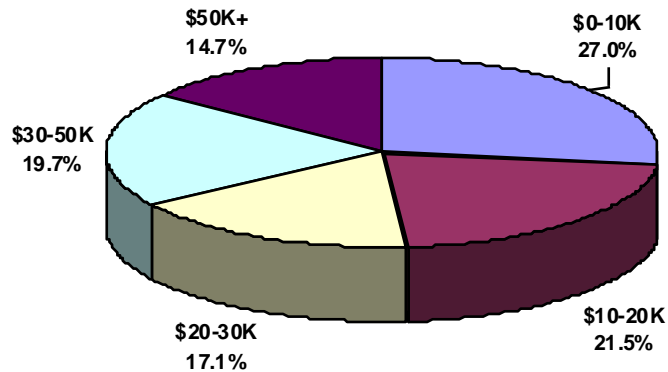
### FFEL and Direct Loans

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**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

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#### Loan Volume by Institutional Sector

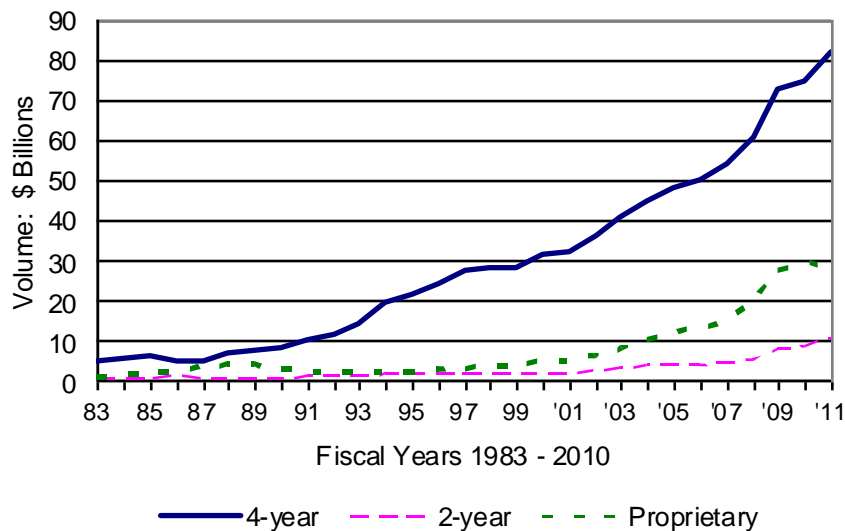
Based on FY 2011 National Student Loan Data System and related data, about two thirds of all Direct Loan dollar volume occurred at 4-year institutions.

#### Distribution of New Loan Volume Dollars by Institution

FY 2011	4-Yr. Public	4-Yr. Private	2-Yr. Public	2-Yr. Private	Proprietary
Direct Loans	36.1%	31.3%	8.4%	0.3%	23.9%

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 by 4-Year, 2-Year, and Proprietary School Sectors



- Loan volume at 4-year institutions continues to show substantial growth, increasing from \$5 billion in FY 1983 to almost \$82 billion in FY 2011, representing 67 percent of all gross commitment loan volume in FY 2011. The loan volume increase from 2010 to 2011 was about 9 percent.
- Loan volume at proprietary institutions increased greatly by almost 40 percent between 2008 and 2009, possibly attributable to difficult economic and employment conditions. However, growth tapered considerably between 2009 and 2011 at about 4.5 percent. In FY 2011, proprietary school loan volume represents 23.9 percent of total volume, down from 25.9 percent in 2010, but still much higher than the 13.4 percent it accounted for in 2000.

## STUDENT LOANS OVERVIEW

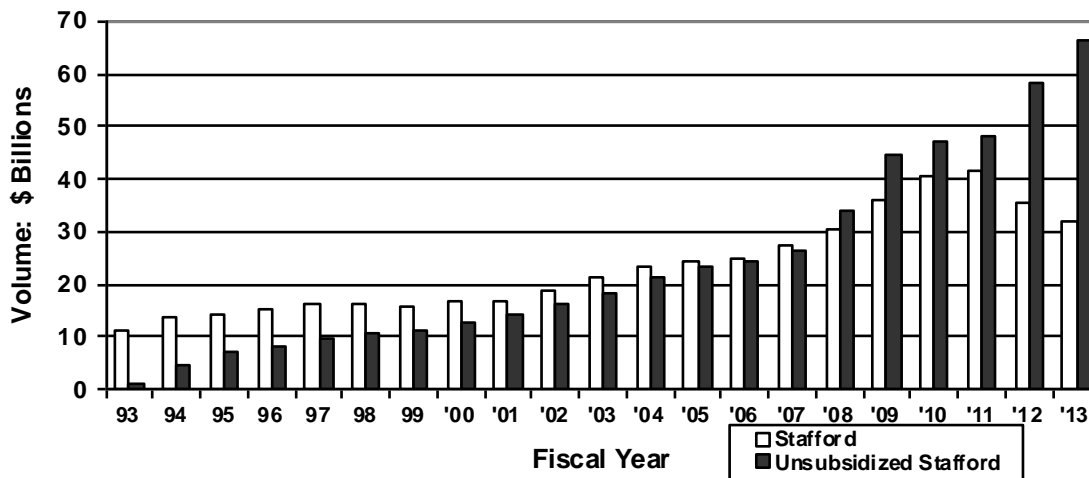
### FFEL and Direct Loans

- Loan volume at 2-year institutions remained steady during the early 1990's, possibly due to relative lower overall cost of attendance. However, volume has grown noticeably since then, from \$1.9 billion in FY 2000 to over \$10.5 billion in FY 2011. Relative to the other segments, volume at 2-year schools is comparatively small, accounting for only 9 percent of all gross commitment loan volume in FY 2011.

### Loan Volume by Subsidized and Unsubsidized Stafford Loans

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 subject to prescribed loan limits, regardless of financial need. Unsubsidized Stafford Loans have enjoyed strong popularity from inception, as shown in the following graph. Due to passage of the Budget Control Act of 2011, graduate and professional students will no longer be eligible for regular Subsidized Stafford Loans as of July 1, 2012. Therefore, the growth of Unsubsidized Stafford Loans is expected to accelerate.

#### Stafford Loan and Unsubsidized Stafford Loan Volume



## 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 in part based on the cumulative effect of the resources provided in previous years and those requested in FY 2013 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.

## STUDENT LOANS OVERVIEW

### FFEL and Direct Loans

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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 because most private lenders would not be providing loans to students with little or no work experience or credit history. In FY 2011, the Direct Loan program, excluding Consolidations, provided approximately \$109 billion in new loan assistance to almost 11 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.

### National Student Loan Cohort Default Rate

One key measure related to the entire range of student loan programs concerns default management. The national student loan "cohort default rate" provides a measure of borrower default behavior in the first 3 years of 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 from FFEL, Direct Loan, and Pell program eligibility—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 of 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 3 consecutive years of such calculations. During this transition time, any sanctions will be driven by calculations made according to pre-HEOA criteria.

The Department issued Final Regulations, published June 13, 2011, in the Federal Register linking eligibility for Federal aid programs offered by proprietary schools and non-degree programs at public and private, non-profit institutions to the program's success as measured by their graduates obtaining "gainful employment" in recognized occupations. A program with less than 35 percent of their former students paying down the balance on their Federal loans and with a debt-to-earnings ratio of more than 30 percent of discretionary income and 12 percent of total income fails the "gainful employment" debt measures. Programs that fail the gainful employment debt measures three times in 4 years lose eligibility for Federal student aid for at least 3 years after which they may reapply for reinstatement. 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.

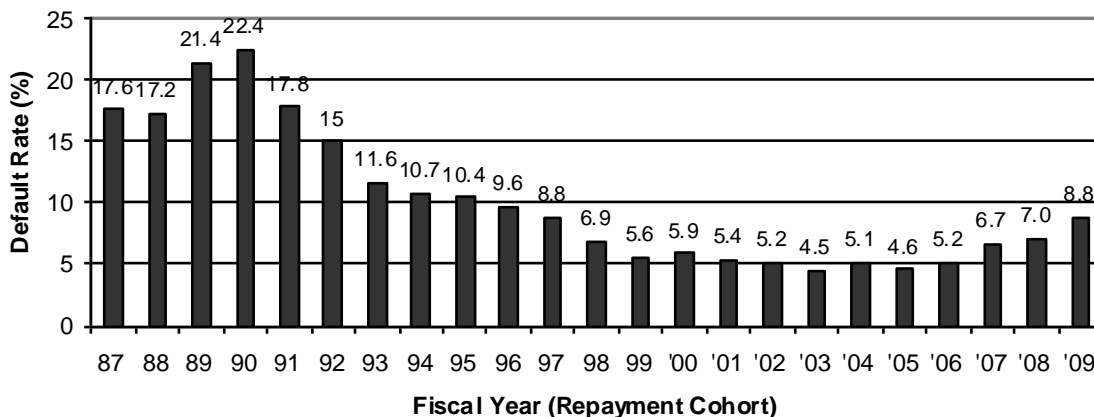
## STUDENT LOANS OVERVIEW

### FFEL and Direct Loans

Page 34387 of this June 13, 2011 regulation shows that for the 2008 cohort year, 46 percent of the student loans (weighted in dollars) that are borrowed by students at 2-year for-profit institutions are expected to default over the life of the loan, compared to 16 percent across all types of institutions. Additional evidence of higher defaults among proprietary borrowers is shown in the annual cohort default rate data release. For the most recent 2009 national cohort default rates, proprietary school borrowers showed a rate of 15 percent compared to borrowers from public or private 4-year institutions who defaulted at a rate of about 5 percent. The overall 2009 cohort default rate of 8.8 percent reflects a noticeable increase in the annually reported measure for the fourth year in a row.

The national “cohort default rate” (as shown below) measures **borrower** default behavior in just the first 2 years of 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.

### National Cohort Default Rate



### National and Perkins Cohort Default Rates

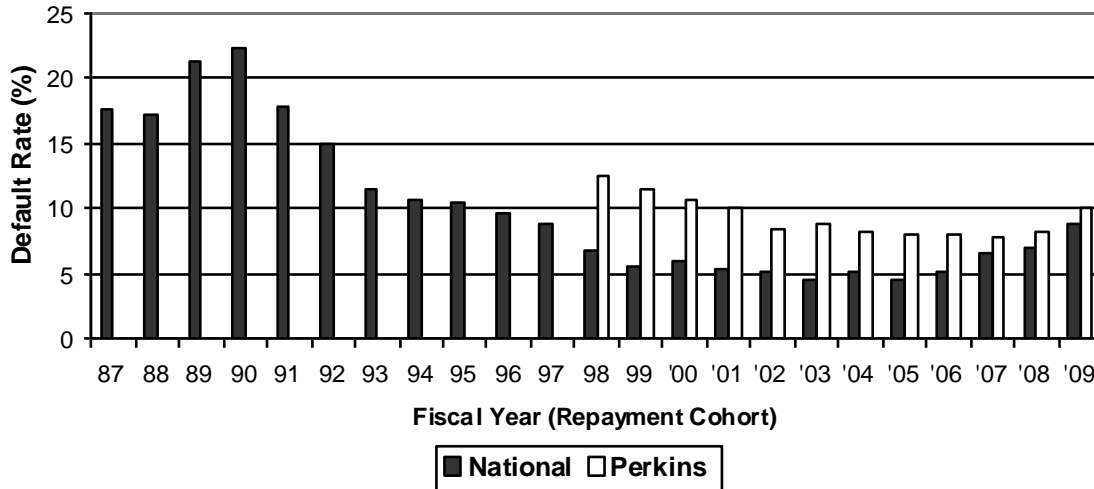
For comparison purposes, the following graph displays the National Cohort Default Rate and the Perkins Loan Program Cohort Default Rate since 1998. (A description of the Perkins Loan Program is contained in the **Student Financial Assistance** account.) Since the technical definitions for computing the rates differ between the programs, comparisons are limited by this fact. Also, the scale of the student loan programs is vastly greater, involving some 3.4 million borrowers entering repayment compared to less than 400,000 Perkins Loan borrowers. Nevertheless, the national cohort rate over the years has tended to be lower than the Perkins cohort default rate, although both have increased during the recent economic downturn.

## STUDENT LOANS OVERVIEW

### FFEL and Direct Loans

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#### National and Perkins Cohort Default Rates



#### FY 2013 Budget Lifetime Dollar Default and Recovery Rates

The table on page R-31 shows the estimated dollar default and recovery rates for the 2013 cohort of loans for Subsidized Stafford, Unsubsidized Stafford, and PLUS loans in the Direct Loan program. The default rates reflect the percent of dollars that are estimated to go into default over the life of the particular cohort. The recovery rates reflect the percentage of dollars the Federal Government estimates it would collect on those defaults. Since interest continues to accrue during the period in which a loan is in default, the interest component becomes a primary driver of total collections. Nevertheless, some loans may have little or no recoveries while others may have substantial collections.

## STUDENT LOANS OVERVIEW

### FFEL and Direct Loans

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Default rates anticipated for the 2013 cohort of Direct Loans range from a high of 23.32 percent for Stafford Loans to a low of 9.69 percent for PLUS loans. See Column 1.

The cash recovery rates exceeding 100 percent indicate that the Federal Government, on average, expects to collect principal, interest, and penalty fees that would more than offset defaulted dollars. This cash recovery rate follows the methodology used in previous years where contract collection costs (CCC) are included in the gross recovery rate. See Column 2. The cash recovery rates of under 100 percent show recovery rates net of those collection costs reflecting the fact that those collection costs pass through the Government to collection contractors and are not retained by the Government. See Column 3.

Column 4 shows recovery rates net of collection costs using a net present value (NPV) basis, which takes into account the factor of time on the dollar value of missed payments due to default and subsequent default collections. Under the NPV basis, the recovery rates reflect the discounting of missed payments due to default and subsequent loan collections over a 40-year loan lifetime window. The NPV recovery rate helps provide an overall context for determining the impact of collection efforts in the Direct Loan program.

Direct Loans	Default Rate <sup>1</sup>	Cash Recovery Rate <sup>2</sup>	Cash Recovery Rate <sup>3</sup> (net of CCC)	NPV Recovery Rate <sup>4</sup> (net of CCC)
Stafford	23.32%	109.77%	95.70%	81.84%
Unsubsidized Stafford	16.63%	104.19%	90.90%	78.28%
PLUS	9.69%	103.48%	90.13%	75.63%

<sup>1</sup> Lifetime dollar defaults as a percentage of disbursements, reflecting outstanding principal and interest at time of default divided by the original loan dollar amounts disbursed, all on a **cash** basis.

<sup>2</sup> Reflects cumulative principal, interest, and fee recoveries on defaulted loans divided by the outstanding principal and interest at time of default, all on a **cash** basis. Includes collection costs that are billed to defaulted borrowers and paid to collection agencies.

<sup>3</sup> Reflects cumulative principal, interest, and fee recoveries on defaulted loans divided by the outstanding principal and interest at time of default, all on a **cash** basis. Does not include collection costs that are billed to defaulted borrowers and paid to collection agencies.

<sup>4</sup> Reflects cumulative principal, interest, and fee recoveries on defaulted loans divided by the outstanding principal and interest at time of default on a **net present value (NPV)** basis, using 2013 budget discount rates. Does not include collection costs that are billed to defaulted borrowers and paid to collection agencies.